

Consider the Alternatives

Investing with a Real Estate IRA



KINGDOM
TRUST

Other current or forthcoming books in our *Consider the Alternatives* series:

Investing with a Precious Metals IRA

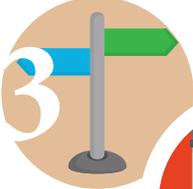
Investing with a Private Equity IRA

Investing with a Private Lending IRA

“I never attempt to make money on the stock market.
I buy on the assumption that they could close the
market the next day and not reopen it for five years.”

- Warren Buffett

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Poor performance and a volatile stock market leave many investors wanting to take more control over their investment portfolios.

Your retirement savings may need to provide 25 to 30 or more years' worth of income. You can't rely solely on the Social Security system, nor do you have a guaranteed pension plan like retirees of generations past.

While stocks, bonds and mutual funds have been the core investments inside the Individual Retirement Accounts (IRAs) of Americans since the 1970s, continued volatility in the stock market and meager returns (coupled with the above changes to the retirement landscape) lead many investors to look elsewhere to build a retirement fund.

When it comes to securing their financial futures, more and more savvy investors are turning away from Wall Street and looking to Main Street. Whether it's rental property, gold bullion or a stake in a private startup business, the alternative asset investment is moving to the forefront of wealth-building tools. And the vehicle carrying the alternative asset investment is the **Self-Directed IRA**.

A Self-Directed IRA is like any other IRA except that you, the account holder, play a much bigger role in choosing investments. You have more control over your financial future by choosing the investments purchased by the IRA.

You have more choices, more opportunities for diversification and the ability to invest in assets that harness your areas of expertise. "Self-Directed" means that it's your decision, your direction, your investment and your opportunity.



Which IRA type is right for me or my business?

TRADITIONAL IRA

- Tax-deferred earnings
- Contributions are tax deductible
- Withdrawals are not tax-free
- No restrictions on income eligibility
- Contributions can lower taxpayer AGI
- Can contribute up to age 70 ½
- Distributions required

ROTH IRA

- Tax-free growth
- Contributions not tax deductible
- Tax-free qualified withdrawals
- No minimum or maximum age requirements
- Penalty-free withdrawals
- Must meet income eligibility requirements
- Distributions not required

SIMPLE OR SEP IRA

- Higher contribution limits
- Owner can contribute for him or herself as well as employees
- Designed for small business owners, including the self-employed (limit of 100 or fewer employees for SIMPLE plans)
- Low administrative costs
- Contribution flexibility
- Distributions required

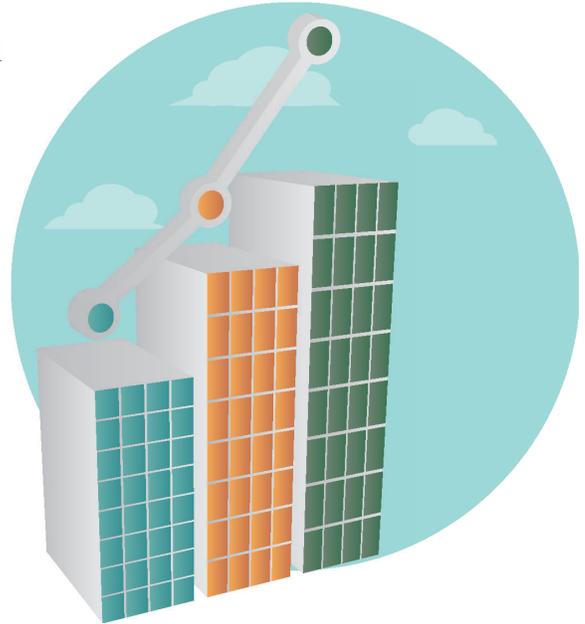
The most common alternative asset investment is real estate and the many variations that stem from real property ownership.

Achieving true diversity

When an investor hears his or her investment or financial advisor use the term “diversify,” it usually means the advisor will recommend an assortment of traditional stocks, bonds and mutual funds. To a more informed investor, true diversity also includes alternative assets unrelated to the stock market.

The top alternative asset

Alternative asset investing continues to increase in popularity as investors become aware of the potential for holding alternatives within a Self-Directed IRA. And real estate can be considered the bedrock of alternative asset investing because real property ownership is widely thought to be a stable investment that consistently appreciates in value.



Many successful Americans have used real estate to grow wealth that withstands the test of time and rocky financial markets. If you love real estate and are comfortable using retirement funds for real property ownership, then this could be the investment for you!

Why haven't I heard of this before?

The Self-Directed IRA is the most undereducated investment option in the market today. Most investors hear about IRAs from their tax, investment or financial advisor.

However, even though investors have been able to invest in alternative assets since the IRA's inception in 1974, most advisors only promote traditional investments since those are the investments with which they are most comfortable. This is a major reason why Kingdom Trust is committed to educating and developing an understanding of Self-Directed IRAs and alternative assets.

Real estate investment opportunities are as vast as your creativity allows, but some stand out among the rest.

Real estate options

There are many creative ways to purchase property in a Real Estate IRA (a Self-Directed IRA holding a real estate investment). Some of the more common investments include



- Single-family homes
- Vacation rentals
- Mobile homes



- Commercial property
- Apartments/townhomes
- Office buildings



- Timberland
- Farmland
- Undeveloped land

Non-traditional options

There are many ways real estate can be a viable investment in addition to an IRA owning property. They include the following:



- Real estate notes
- Second mortgages



- Tax liens
- Promissory notes

Capitalizing on real estate

In order to maximize a Self-Directed IRA real estate investment, it is important to understand the specific regulations that apply. While some are covered in this documentation, you should consult with your financial or tax advisor prior to making any investment and also contact your custodian to determine if a specific investment can be held on the custodian's platform.

There are three key reasons why holding real estate in a Self-Directed IRA may be a wise investment for the future.

Tax-advantaged investing

Seasoned investors understand the advantages of investing in an IRA, regardless of whether it's in a pre-tax or post-tax structure. Contributions to a Traditional, SEP or SIMPLE IRA are pre-tax, and the account benefits from tax-deferred growth. On the flip side, contributions to a Roth IRA are post-tax, and the account benefits from tax-free growth.

A Kingdom Trust representative can help you understand the differences between the types of IRAs and other retirement plans we can hold on our platform.



Higher earning potential

Real estate has the potential to generate income growth as well as price appreciation, which is atypical of many traditional assets.

Investors using their IRAs for alternative investments such as real estate have greater control because they have a broader range of investment options from which to choose and aren't as affected by dramatic fluctuations on Wall Street.*

Passion and expertise

A Self-Directed IRA allows you to invest in assets you're passionate about or have experience with. Because of a higher level of interest and knowledge in the asset, you may become a better informed investor.

** Kingdom Trust is registered and regulated as a non-depository trust company by the state of South Dakota. As a custodian, it holds documentation and is responsible for the safekeeping of assets being administered. Kingdom Trust does not guarantee a financial gain on any investment under its administration.*

Prohibited Transactions

Failure to follow prohibited transaction and disqualified person rules may result in the IRA becoming disqualified.

There are some restrictions to be aware of regarding holding real estate in an IRA, including, but not limited to, the examples below.

Disqualified persons

- Your IRA may not purchase or sell assets or entities from or to a disqualified person, including you (the account holder), a fiduciary or anyone providing services to the plan, your spouse, ancestor (parents, grandparents, and so on), lineal descendant (child, grandchild and so on), spouse of a lineal descendant, or any entity owned or controlled by a disqualified person. For example, your IRA may not sell a property to your son.
- Your IRA may not purchase an asset previously owned by a disqualified person.

Income and expenses

- Any income earned within the IRA (such as rent payments) must remain in the IRA until you take a distribution. If money is taken out, it may be considered a taxable distribution by the IRS and therefore may be subject to income taxes and other penalties.
- IRA asset expenses (property taxes, maintenance, etc.) must be paid for with funds from the IRA. Your personal funds may not be used, unless via allowable contributions or rollovers.
- You may not provide services to any asset owned by an IRA, meaning you may not manage a property, perform maintenance, and so on.

Other prohibited activities

- Assets in an IRA may not be for personal use, so you may not stay in property owned by an IRA, even if briefly. This also applies to any disqualified person mentioned above.
- Your place of business may not be located on property owned by the IRA.



For much more on this important topic, download the Prohibited Transactions report from our website or request a copy from our staff.

The Kingdom Process

Opening a Real Estate IRA with Kingdom Trust is a simple, stress-free process.

If you've identified a property you would like to invest in with a Self-Directed IRA, Kingdom Trust is here to help you get started. We provide industry-leading service, simplified procedures and a wide array of custody solutions to help you achieve financial freedom.



Our online account opening process accepts a digital signature and takes just a few minutes.

You may fund via contribution, transfer or rollover from another account.

You will submit documents directing Kingdom Trust to purchase an asset on your behalf.

Kingdom Trust will countersign the documents and send funds for investment.

Kingdom Trust will work with the investment to receive confirmation and value updates.

You, and designated representatives, may access your account at any time through our online portal.

1. How can I fund my Individual Retirement Account?

You can fund via annual contributions, with current limits of up to \$5,500 (\$6,500 if age 50 or older) for Traditional and Roth IRAs through tax year 2016. You may also roll over funds from another IRA or qualified plan such as a 401(k). Visit [IRS.gov](https://www.irs.gov) for current contribution levels for all IRA types.

2. How do I get money out of my account?

Money comes out of your account as distributions, which can be taken penalty-free at age 59½ or older. If distributions are taken earlier, a 10% penalty would be assessed. Traditional IRA account holders must begin taking Required Minimum Distributions (RMDs) upon reaching age 70½. For Roth IRAs, distributions may not be taken penalty-free until the account has aged five years from January 1 of the year in which the first contribution is made and the account holder has reached age 59½. Distributions may also be made from an IRA upon the death of the account holder. They can also be made for certain disabilities, for first-time home purchases and a few other situations.



3. Should I be aware of any special rules or tax considerations?

Yes, which is why Kingdom Trust strongly encourages you to consult tax, legal and accounting professionals when considering any investment. Every investor should know as much as possible about disqualified persons, prohibited transactions and any tax situations related to an investment.

4. In what assets may I invest?

The Internal Revenue Service only prohibits investments in life insurance, collectibles, metals and coins (with some exceptions) and S corporations. All other investments are acceptable as long as they are structured properly and do not include a disqualified person.

5. Is my IRA insured?

IRAs are not insured like bank accounts. However, at Kingdom Trust, uninvested cash is held for your benefit at financial institutions covered by the FDIC. FDIC insurance covers up to \$250,000 per account and applies to cash deposits only. FDIC insurance does not insure a client's investment(s).

6. How do I buy real estate in my IRA?

It's easy! Buying real estate in your IRA is similar to purchasing real estate personally, but with some important distinctions. For instance, the property must be titled in the name of your IRA. Your custodian will sign documents on behalf of your IRA. Also, all expenses related to the purchase and maintenance of the property, including insurance and taxes, must be paid from your IRA.



7. If I buy rental property, can I manage the property?

Technically speaking, you probably can manage the property as long as you do so without compensation. However, this is not recommended. Managing the property provides too many opportunities to inadvertently engage in a prohibited transaction. It is best to have a non-disqualified third party manage the property.

8. Am I limited to direct purchases only when using my IRA to purchase real estate?

No. Your IRA can directly purchase an investment property and hold the title, but the account may also hold real estate in other ways. These include holding tax liens, mortgage notes and trust deeds.

Your IRA can also **partner** with you or non-disqualified individuals' IRAs or personal funds. Your IRA may also borrow money to purchase a property with a non-recourse loan, which is known as **leveraging**. Your IRA may also hold interest in a **limited liability company** (LLC), and the title of the property is held in the name of the LLC instead of the IRA. With any of these options, Kingdom Trust highly recommends you seek the counsel of your financial team as you move forward.



9. If I don't have sufficient funds in my IRA, can I invest with others?

Yes. As aforementioned, you may partner with another non-disqualified person(s), so be aware of the prohibited transaction rules.

10. If I don't have sufficient funds in my IRA, can I borrow money to make up the difference?

Yes. However, technically the IRA is borrowing the funds to purchase the assets. While you cannot borrow money from your IRA for a loan to be used outside of the account, you can use debt (in the form of a non-recourse loan) to finance real estate within the IRA.

Also, any profits attributed to borrowed funds may result in your IRA being assessed unrelated business taxable income (UBTI/UBIT) or unrelated debt-financed income tax (UDFI). You would need to consult a financial or tax advisor to determine if you should account for UBTI/UBIT or UDFI.

11. What is a non-recourse loan?

A non-recourse loan is a loan secured only with collateral, usually the real estate property. This means that in the event of default, the lender can only claim the property for which it has loaned your IRA the funds. The borrower cannot be held personally accountable, nor can his or her IRA funds or other IRA assets be seized, even if the collateral does not cover the full value of the defaulted amount.

You usually cannot obtain a non-recourse loan from a bank. However, some private lending companies specialize in non-recourse loans. While we can't recommend or endorse any one such company, a quick Internet search should provide you with a list.

12. If I buy real estate that needs work, can I do the work myself?

No, because you are a disqualified person according to [26 U.S. Code § 4975](#). Kingdom Trust highly recommends you have the work done by a non-disqualified third party to avoid a prohibited transaction.



13. How do I pay for the work performed on real estate owned by my IRA?

All work must be paid for through your IRA. Payment for work can be submitted by a non-disqualified third party property manager, if applicable, who would then submit it to Kingdom Trust. Or you may submit an invoice directly to Kingdom Trust for work performed on the property.

14. How do I pay for expenses like utilities, repairs and insurance for property owned by my IRA?
As with any expenses related to work performed, any other expenses related to an IRA-owned asset must be received and paid by the IRA itself. You cannot use personal funds to pay for expenses, as this is expressly prohibited in [26 U.S. Code § 4975](#).

Payment requests for expenses should be directed to your custodian for processing with clear direction for which investment asset the expenses pertain to and with the proper accompanying paperwork, if available.

15. Where should I send income received from my IRA-owned real estate investment?

Income should be sent to your custodian for processing with the proper titling and with the proper accompanying paperwork. For example, a rent check should be made out to “The Kingdom Trust Company, Custodian, FBO Account Holder’s name, Account Number” and be accompanied by a completed Deposit Instructions form.



16. Do I have to buy and hold or can I purchase, renovate and sell?

You can purchase, renovate and sell as well, but remember that you should not do any work on the property yourself.

17. Should I purchase a real estate property directly with my IRA or have an IRA-owned LLC purchase the property?

Kingdom Trust does not promote, endorse or advise on any particular method of investing. With that said, there are some differences in these two methods worth pointing out.

In the case of real estate, if the IRA purchases the asset, then the IRA holds the title to the property. The custodian, on behalf of the IRA, would sign any closing documents for a real estate purchase.

If a limited liability company purchases the property, then the LLC holds the title. Because an IRA-owned LLC would have check-writing privileges, the authorized signer(s) for the LLC would sign the documents.

Also note that an IRA does not have to report any income received by the property to the IRS if the property is owned directly by the IRA. But in an IRA-owned LLC structure, the LLC must report any income received by an LLC-owned property to the IRS.



18. May I use any property owned directly or indirectly by my IRA?

Absolutely not, as this is prohibited in [26 U.S. Code § 4975](#). This type of use would be considered a direct or indirect furnishing of goods, services or facilities between the IRA and a disqualified person. This also means that your IRA cannot sell the property to you. IRA assets are to be used for investment purposes only.

19. How may I receive payment to purchase a property at auction?

If such a property is to be held in your IRA, then the check must be made payable to the auctioneer, county or non-disqualified third party. Checks should not be issued to the IRA holder, as this constitutes a distribution. We can send a cashier's check or regular check if requested by the client.

Kingdom Trust requires a completed Investment Direction Kit to proceed, and once received, all documents required for a standard real estate purchase must be submitted within 60 days. In the event there is excess funds from the check, those funds must return to the IRA.

20. Does Kingdom Trust perform any due diligence?

Because these are self-directed investments, you (the account holder) are responsible for performing your own due diligence. Members of your financial team may help with your due diligence efforts on any investment you are interested in.

For a real estate investment, consult with your real estate professional to assist with any due diligence. Check whether the title company is familiar with real estate investments via an IRA and whether the title can be held in the name of a retirement account. Also determine how the asset should be acquired (directly by the IRA or through an LLC, for example) and who might serve as manager for the property. This initial research and due diligence should help the process move more smoothly.

This publication is intended to provide basic information regarding Self-Directed Individual Retirement Accounts. It is published with the understanding that this is not a legal or binding contract, but rather an informational tool. Please refer to our website at KingdomTrust.com for more detailed information. Kingdom Trust is a non-fiduciary trust company, registered and regulated in the state of South Dakota as a non-depository trust company. Kingdom Trust is a passive, non-discretionary custodian that does not provide, promote, endorse or sell investment products and does not endorse or promote any individual investment advisor or investment sponsor.



Visit our website for more educational opportunities and resources: KingdomTrust.com

For more educational resources on the topics discussed in this eBook, visit any of the following:

26 U.S. Code § 4975

<https://www.law.cornell.edu/uscode/text/26/4975>

IRS Publication 590-A

<https://www.irs.gov/pub/irs-pdf/p590a.pdf>

IRS Publication 590-B

<https://www.irs.gov/pub/irs-pdf/p590b.pdf>

Real Estate IRA

<https://www.kingdomtrust.com/what-is-a-self-directed-ira/real-estate-ira>

Retirement Topics - Prohibited Transactions

<https://www.irs.gov/Retirement-Plans/Plan-Participant,-Employee/Retirement-Topics-Prohibited-Transactions>

Self-Directed IRA FAQ

<https://www.kingdomtrust.com/what-is-a-self-directed-ira/self-directed-ira-faq>

Traditional and Roth IRAs

<https://www.irs.gov/Retirement-Plans/Traditional-and-Roth-IRAs>



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