Simply put, a self-directed individual retirement account (IRA) gives you the freedom, flexibility, and choice of how to invest your hard-saved dollars. A real estate IRA is a self-directed IRA that holds real estate. You can expand and diversify your investment opportunities beyond the stock market into a variety of assets, including mortgages, notes, trust deeds, and other real estate related investments.

We've answered frequently asked real estate IRA questions to help you understand the basic rules of self-direction so that you can make the most of your retirement savings.

1. How can I invest in real estate with my IRA?

There are several ways you can approach investing in real estate with your retirement funds. Here are a few examples:

**Direct Purchase**
Your IRA pays cash for the investment property and holds the title to the property.

**Partnering**
You partner your IRA with personal funds or other IRA funds. You can also partner with other peoples’ IRAs or their personal funds. You divide the investment according to each investor’s contribution.

**Leveraging**
Your IRA borrows money to purchase a property with a non-recourse loan and the leveraged property is held in your retirement account.

**LLC**
Your IRA holds interest in a limited liability company (LLC) or land trust. The title of the property is held in the name of the LLC.
2. How long does it take to make a typical real estate purchase?

Entrust typically sees escrow close on a simple real estate purchase between fifteen to thirty days. Depending on the complexity of the transaction, it could take longer.

There are a number of factors that must be considered when timing a real estate purchase in an IRA. Investors must have a funded Entrust account that has been open for at least seven days before the investment can be made.

It is important to note that funding your Entrust account is heavily dependent on the custodian that you may be moving funds from. It is wise to have an established and funded account, even before you start searching for a property.

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.

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

No, it is not required. Some Entrust account owners, however, choose to use a property manager for the purpose of consolidating the various expenses. Another advantage, if you are partnering with others, is that your tenants do not have to write multiple rental checks to the various investors. They just write one to the property manager, who then distributes the percentages accordingly.

5. Can I be the property manager?

No, but Entrust does permit the IRA account owner to receive the rental income for record keeping. However, the actual funds must be sent to Entrust for depositing. The IRA owner cannot deposit the rent in any non-IRA account because this constitutes a distribution. You cannot pay yourself income from profits generated from your IRA’s rental property.

6. If I cannot be the property manager, who can I employ?

You can hire any third party who is not a disqualified person. For more information about disqualified persons, see IRS Code 4975. The Property Management Agreement is signed by Entrust for the benefit of the IRA at the direction of the IRA account owner.

7. Can I sell the property to myself?

No. Pursuant to IRS Code 4975, the direct or indirect furnishing of goods, services, or facilities between an IRA and a “disqualified person” is prohibited.

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

No, the property is for investment purposes only.

9. 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 or fees, depending on your age and the type of IRA you own.

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

Any expenses from an asset within your IRA must be received and 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.

11. 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.
12. Can my kids live in the home that my IRA owns and pay me rent?
No, because they are disqualified persons. You cannot buy a house or vacation property for you or your lineal ascendants or decedents to use while your IRA owns it.

13. I am a contractor. Can I rehab the property that my IRA owns?
No, because you are a disqualified person. The direct or indirect furnishing of goods, services, or facilities between an IRA and a disqualified person is not allowed.

14. 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.

15. 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. If there is insufficient cash 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.

16. 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.

17. 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.

18. 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 note and deed of trust. The loan documents are signed by Entrust on behalf of the IRA at the direction of the IRA account owner.

19. 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—has no recourse—for any further compensation, 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.

20. What is Unrelated Business Income Tax (UBIT)?
UBIT refers to debt-financed income, which is usually in the form of rent, interest, or royalties arising from financed property. See Publication 598 for information on UBIT.

21. 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. The required documents to fund an auction purchase are:
- Buy Direction Letter
- Bidder Registration Form or Third-Party Agreement
- Real Estate Auction Acknowledgement Letter
22. What is the difference between the IRA purchasing the property 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 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 Entrust transaction fees.

23. What are the different considerations for purchasing offshore properties?

First, verify that the title can be held in the name of the IRA. Some countries require that land be held in the name of an entity. In this situation, you must establish an entity to proceed with the purchase. You should allow for additional time to close an offshore real estate transaction. Although it is not required by the IRS, we recommend that you find a local property manager.

24. 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 retirement plan 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.

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

All income and expenses are sent to Entrust’s Cash Management Team (CMT) for processing. Rental checks must be made out to: The Entrust Group Inc. FBO [account owner's legal name or plan name], account # [account number]. For expenses, complete Entrust’s Payment Authorization Letter and send it, along with a copy of the invoice or bill, to the CMT.

26. Can the rental income from the property in my IRA flow back to me personally?

Yes, you can request that funds be sent to you as a distribution. Your distribution may be subject to taxes or fees, depending on your age and the type of IRA you own.

27. How is the rent collected on rental property?

If the property is being managed by a property manager, the property manager collects the rent and sends it to Entrust 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 deposited directly to the IRA account.

28. Can I use the property during the year?

No, the direct or indirect furnishing of goods, services, or facilities between an IRA and a disqualified person is prohibited. See IRS Code 4975 for information on prohibited transactions and disqualified persons.

29. Can I do my own repairs?

No, because you are considered a disqualified person. The direct or indirect furnishing of goods, services, or facilities between an IRA and a disqualified person is not allowed.

30. What expenses on the property can my IRA pay for? What is not payable from the IRA?

Regular real estate expenses, such as mortgage payments, property taxes, insurance, HOA dues, and repairs and maintenance, must be paid from the IRA. If these expenses are paid with personal funds, you cannot be reimbursed by the IRA. Doing so is a prohibited transaction. Any payment to an IRA account owner from an IRA, whether or not claimed as a reimbursement, is a distribution and must be reported on IRS form 1099-R and therefore, subject to inclusion in gross income.
31. What does Entrust require to fund a real estate transaction?
See the convenient Real Estate Buy Direction Letter for documentation needed to fund a real estate transaction. Please make sure that your account has sufficient funds.

32. 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, Entrust funds the following business day. 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.

33. 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, the IRA can purchase a land trust. The IRA is the beneficiary of the land trust. The trustee executes the closing documents and provides copies to Entrust for review and funding.

34. Can I represent myself as the agent for the transaction?
Yes, but you cannot receive compensation for the transaction.

35. 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 or qualified plan.
- 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 or through a corporation, trust, or foundation.
- Find someone local to handle property management and other upkeep matters.