

Purchasing Your First Real Estate Property With a Self-Directed IRA

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Agenda

- About Entrust
- What is a Self-Directed IRA?
- The Benefits of Self-Direction
- Planning Your Purchase
- Purchasing Your Property
- Maintaining Your Property
- SDIRA Rules
- Common Mistakes
- Q&A Time

About Entrust



- Self-Directed IRA administrators
- Nearly 40 years of service
- 22k+ accounts
- Over \$3.6 billion in investor assets
- Entrust clients get a single point of contact

About Entrust

Entrust is the premier provider of self-directed retirement plans



CFP BOARD



- Knowledgeable Staff with CISP designations
- Nationwide offices
- National CE program
- National and local in-person events and webinars
- Annual IRA Academy

Benefits of Self-Direction



Take Control



Diversification



Tax Savings

Planning Your Purchase: Which Plan Is Best For You?

Traditional
IRA

Roth IRA

Simplified
Employee
Pension (SEP)
IRA

Savings Incentive
Match Plan for
Employees
(SIMPLE) IRA

Individual
401(k)

HSA

ESA

Planning Your Purchase: Which IRA Is Best For You?

Roth IRA

- Funded with post-tax income
- Qualified distributions are tax-free
- Beneficiaries also enjoy tax-free distributions
- No Required Minimum Distributions (RMDs)

Traditional IRA

- Funded with pre-tax income
- Distributions are taxed
- Required Minimum Distributions (RMDs) begin at 72

Planning Your Purchase: Which IRA Is Best For You?

SEP

- Employer contributions to employees' IRA are discretionary and tax deductible to the employer.
- No employee contributions

SIMPLE

- No more than 100 employees
- Elective employee salary deferral and employer matching

Planning Your Purchase: Which IRA Is Best For You?

Individual 401(k)

- Tax deductible contributions
- Designed for owner only plans. Have the same benefits of a 401(k) but not subject to nondiscrimination tests
- Plan can only cover owners and spouses

Planning Your Purchase: Real Estate Investment Types



What is a Prohibited Transaction?

Any **improper** use of an IRA or Plan
by the plan participant or a
disqualified person



Examples of Prohibited Transactions

- Borrowing money from disqualified persons
- Selling property to disqualified persons
- Using an IRA/Plan as security for a loan
- Buying property for personal use with IRA/Plan funds
- Investing in a company owned by a disqualified person

Know The Rules

- ✓ Avoid prohibited transactions
- ✓ Learn your disqualified persons
- ✓ Don't perform services on your properties
- ✓ No improper vacation home use
- ✓ Submit your annual FMV
- ✓ In Kind Distributions are allowed



Disqualified Persons

- You, the account holder
- Your spouse
- A beneficiary of the IRA
- Your lineal ascendants/descendants and their spouses
- IRA fiduciary or plan provider

Due Diligence Tips

- **Stay Compliant**

- Observe all IRS guidelines concerning reporting requirements and prohibited transactions

- **Location is Key**

- Before value evaluation, it is wise to research the crime rate, median income, occupancy, population growth and school rankings in the area

- **Estimating Value**

- By creating lists of income and expense items, you can calculate the projected total cost including taxes, cash flow and annual income

Due Diligence Tips

- **Acquire Property Financial Documents**
 - Beware of *Bad Debts* and *Misallocated Capital Expenses*
- **Research the Property's Title**
- **Potential Homeowner Association (HOA)**
 - Review bylaws, money in reserve and membership fees



Important Documents

- T-12 operating statement
- Current rent roll
- Aged receivables report
- List of recent capital improvements

Due Diligence Tips

- **Inspecting the Property**

- Hire professional(s) to evaluate the condition of the property's walls, roof, electricity, sewer line, and asbestos with you
- Assumption list



- **Final Decisions & When to Walk Away**

- Play devil's advocate
- Always be willing to walk away

Avoid These Mistakes



Failing to create a plan



Skimping on research



Doing everything on your own



Overlooking tenants' needs



Getting poor financing



Overpaying



Underestimating expenses

Purchasing Your Asset

Know Your Purchasing Options:



Direct Purchase (Cash)



Partnering your IRA



Leveraged Purchase with a Non-Recourse Loan



Limited Liability Corporations (LLCs)

Purchasing Your Asset

Vesting of the Property Title



The property title is **vested** in the name of your IRA



Investment documents are **titled** in the name of your IRA

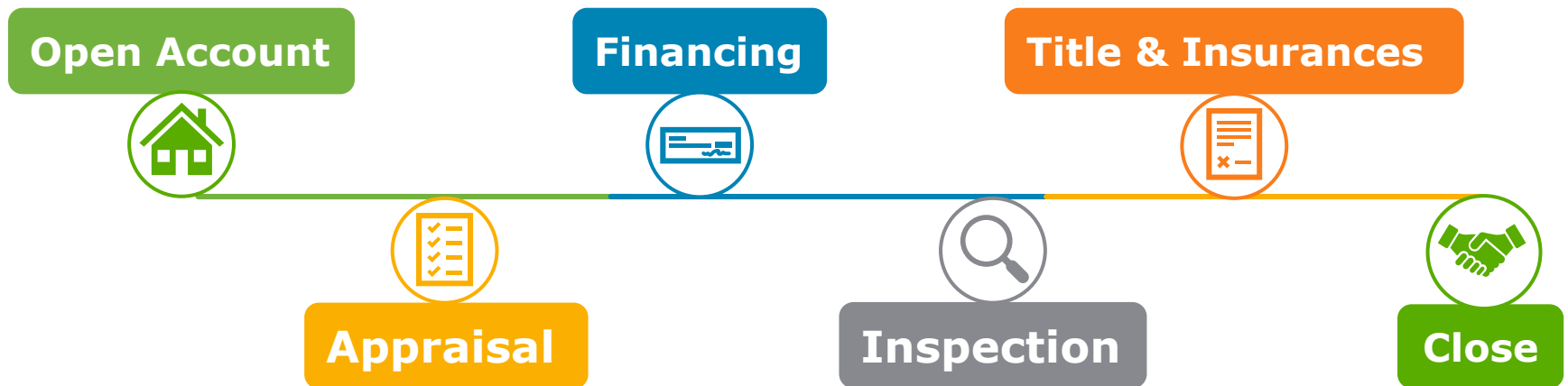
Example of Proper Vesting of the Title:

The Entrust Group, Inc. FBO John Smith Account #12345

Purchasing Your Asset

Escrow Simplified

The **escrow process** occurs between the seller accepting a purchase offer and the buyer taking possession of the home.



Maintaining Your Property: Income & Expenses

- Property management paid out of the IRA
- Maintenance costs must be paid out of the IRA
- Income must be made payable to your IRA, not to your name
- Options if your IRA runs out of funds:
 - Rent the property
 - Transfer funds from another IRA
 - Make a contribution
 - Liquidate other IRA assets

Maintaining Your Property: UBIT & UDFI

- Unrelated Business Income Tax (**UBIT**)
- Unrelated Debt-Financed Income (**UDFI**)
 - Acquisition Indebtedness

What's Next?

- **Need more information regarding today's topic?**
Fill out the webinar survey
- **Need more information on SDIRAs?** Visit our website and Learning Center
- **Follow us on social media** for updates



Time for Questions



Thank You!

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