QUICK TIPS FOR REAL ESTATE INVESTING

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1. *Be aware of "self-dealing transactions*." Buying property for personal use (either for you and/or a family member), such as a residence, lake cabin or a condo in the mountains, would be considered a self-dealing transaction and is strictly prohibited. Also, you cannot use your IRA to purchase property that you or a family member already owns. The property must be for investment purposes only.

2. *Funding the purchase*. The best way to purchase property in your IRA is with cash as any use of debt financing* might create taxable income inside the IRA. If debt financing is used non-recourse loan is required, meaning that if your IRA fails to make payments, the only collateral the lending institution can come after is the property itself and not the IRA. The lending entity will typically attempt to qualify you for this loan (you cannot personally guarantee the loan). Your selected lender must agree to directly lend money to your retirement plan. It will be your responsibility for locating a lender that allows non-recourse loans. This may be an institutional lender or a seller-financed arrangement. The promissory note and deed must be prepared in the name of the plan and require your signature. An alternative to an all cash or leveraged purchase is to have your IRA purchase an interest in the property in conjunction with other individuals, such as a spouse, business associate, or friend. In such cases your retirement plan would own a percentage of the property and be listed on the deed as holding that specific percentage. The other investors in the property would also be listed on the deed.

   * There is a special tax on debt-financed property in IRAs called the unrelated business income tax (UBIT). UBTI does not apply to all real estate investments, only to property purchased that has a related debt; in other words, property that has been financed or has an outstanding debt balance at the time it is producing income or is sold. If the real estate is mortgaged, then you will need to retain the services of an accountant to prepare Form 990-T. This form will then need to be sent to the IRA custodian with your authorization to pay the taxes from your account. Example: Let's say that you purchased a $200,000 condo inside your IRA and placed $160,000 down and had the IRA borrow the remaining $40,000. On a simplified calculation, you'd be able to shelter approximately 80% of the income. The rest of the income from the property would be subject to ordinary income tax rates.

   If the property is not income-producing, UBTI does not apply. Consult with your tax advisor to determine whether your investment has generated Unrelated Business Taxable Income (UBTI). Generally, IRAs (Traditional, SEP, and Roth) that receive $1,000 or more of gross UBTI during a single tax year must file Form 990-T with the IRS on or before the April 15 tax-filing deadline. All applicable taxes should be paid from the trust assets. Accounts receiving less than $1,000 of gross UBTI are not required to file.

3. *Income and appreciation*. When purchasing property inside an IRA, you will want to focus solely on the income and appreciation aspects of property ownership. All the profit you make from these investments goes back into your IRA and accumulates on a tax deferred basis until you start to take withdrawals. If you purchase property inside a Roth IRA your distributions will be tax free. The one downside to owning real estate inside your retirement account is the loss of the depreciation deduction. It is unavailable inside your retirement account and cannot pass through to you individually.

4. *Rules of ownership*. All property related expenses (such as tax bills, insurance premiums, homeowner's association payments, and utility bills) must be paid from funds in your IRA. Invoices for non-routine expenses (i.e., repairs and improvements) require your specific authorization prior to payment from the account. If the account owns property that generates investment income, you will need to appoint a property manager to collect income and/or pay associated expenses. Property management, if needed, needs to be provided by a third party (someone other than yourself or family member). Of course, all income or profits generated from the property must be deposited in your IRA account. The value of the property will remain at cost unless the retirement plan custodian receives a certified appraisal from a state-certified appraiser. Depending on the specific investments held in your retirement plan, a certain amount of cash or liquid assets may be required to be retained in the account to cover unanticipated, miscellaneous expenses associated with the investment.

5. *Roth IRA option*. Income earned under a Roth IRA, including rents and all the gain on any sale of the property, is tax-free to the Roth IRA. In addition, assets or cash distributed to you from the Roth IRA may be taken tax and penalty free provided the distribution satisfies a five-year waiting period (beginning with the first day of the year for which you made a regular contribution or, if earlier, in which you completed a conversion and follows one of these events: attainment of age 59½, disability, the purchase of a first home, or death.

6. *Taking Property out of the IRA*. You can withdraw real estate from your IRA and use it as a residence or second home when you reach retirement age (age 59½ or older for a penalty-free withdrawal). This is referred to as in-kind distribution. Under that arrangement, your IRA custodian assigns the title to the property over to you. You will then have to pay income taxes on the current value of the property if it's been held in a traditional IRA. If the property was held in a Roth IRA, you won't owe any taxes.