

# Real Estate Investing in your Self-directed IRA



**Jackee Knight**  
Corporate Training Director

# STC, Inc.

- **STC is a retirement plan administrator only and does not provide legal, tax, or investment advice.**
- **STC is not a registered investment advisor and does not represent or sell securities or investments of any kind.**
- **STC does not represent or endorse any investment opportunities that may be shared in this presentation.**
- **We recommend you consult with your legal, tax and investment advisors prior to making any investments.**

# Contents

- **Self-directed Retirement Accounts**
- **Benefits and Guidelines**
- **STC, Inc.**
- **Choosing and Funding an Investment**
- **Purchasing Real Estate**
- **Non-recourse Loans**
- **UBIT-UDFI**
- **Q & A**

# Self-directed Retirement Plans

## *What is a Self-directed Retirement Plan?*

- **You** may choose any allowable type of asset
  - Includes non-traditional assets like real estate
- **You** manage your retirement plan's investments
- **You** have control



# Retirement Plans

- ❖ Traditional IRA
- ❖ Roth IRA
- ❖ SEP
- ❖ SIMPLE
- ❖ 401 k – former employer
- ❖ 403 b – former employer
- ❖ TSA – former employer
- ❖ TSP – former employer
- ❖ Solo 401(k)



# Benefits of Self-Direction

- ✓ True Diversification
  - Include non-traditional assets
    - real estate
    - mortgages & notes
    - private business
- ✓ You choose and control the investments and transactions
- ✓ You can increase your buying power by using leverage

# Guidelines for Self-Directing

- **Administrative requirements**
  - Annual valuation of account
  - Annual report to IRS (5498)
  - Books and records
  - State filings
  - Tax returns



# Guidelines for Self-directing

- **Prohibited assets:**

- Life Insurance Contracts
- Collectibles
  - i.e. rugs, works of art, stamps, coins



- **Prohibited transactions:**

- Transactions not for the exclusive benefit of the plan
- Can't borrow from the retirement plan
- Can't pledge plan assets to secure a personal loan
- Can't utilize credit or guarantee to obtain loan for the plan
- Can't benefit any disqualified person



# Guidelines for Self-Directing

## Disqualified persons:

- “You”
- Certain family members
  - Ascendants
  - Descendants
  - Lateral family members are not disqualified
- Company if you are a majority shareholder
- Company if you are officer, director, HCE

# STC's Full-Service Approach

- Set up Retirement Account LLC structure
- CPAs & attorneys to answer technical questions
- Guidance on transaction compliance
- Handle all the 'back office' support
- Maintain LLC financial statements
- Supervise regulatory reporting
- Oversee annual valuation



# Benefits of the LLC Structure

- ✓ Offers maximum flexibility
- ✓ Provides additional asset protection
- ✓ 'Checkbook control' over Retirement Account funds
  - ✓ Immediate response to investment opportunities
- ✓ Simplifies asset titling
- ✓ Ease of pooling



# Choosing an Investment

## Investment Options

- Single/Multi-family homes
- Vacation property
- Raw Land/Building Lots
- Commercial Buildings
- Real Estate Syndications
- Tax Liens
- Mortgages/Loans
- Private Business Investments
- Operating Businesses
- Precious Metals
- Foreign Currency/Options/Futures
- Stocks/Bonds/Mutual Funds



# Investing Your Funds

- 1. Request review of transaction/structure in advance (optional)**
- 2. Request Transfer of Funds**
- 3. Client Services reviews transaction**
- 4. Client Services processes transfer request**
- 5. Funds sent from LLC bank account to Seller**

# Purchasing Real Estate

- **Locate the Property & make an Offer**
- **Offer must be in the name of buyer, i.e. IRA/LLC name**
- **Escrow Deposit-copy of Contract with IRA/LLC as buyer & Request to Transfer Funds Form**
- **At least one business day before closing (by 2:00pm): HUD or Settlement Statement showing IRA/LLC as buyer & Request to Transfer Funds Form**
- **Client Services Dept. discusses transaction with Client**

# Purchasing Real Estate

- **'Guaranteed Funds' for closing-Wire Transfer, Bank Official Check**
- **Client goes to Closing and signs all closing documents**
- **Client sends copy of closing documents to STC and keeps originals**
- **Can use borrowed funds to purchase**
  - **Must be non-recourse loan**
  - **UBIT /UDFI**

# Purchasing Real Estate

- **Can partner with anyone at inception**
  - With 'disqualified persons' – ownership % can never change
  - All property expenses are paid pro-rata based on ownership
  - All property revenues are distributed pro-rata based on ownership
- **Can set up sub LLC to own the property**
  - All rules relating to retirement accounts must still be followed
- **Disqualified Persons cannot:**
  - Do rehab or repairs
  - Be tenant, buyer or seller

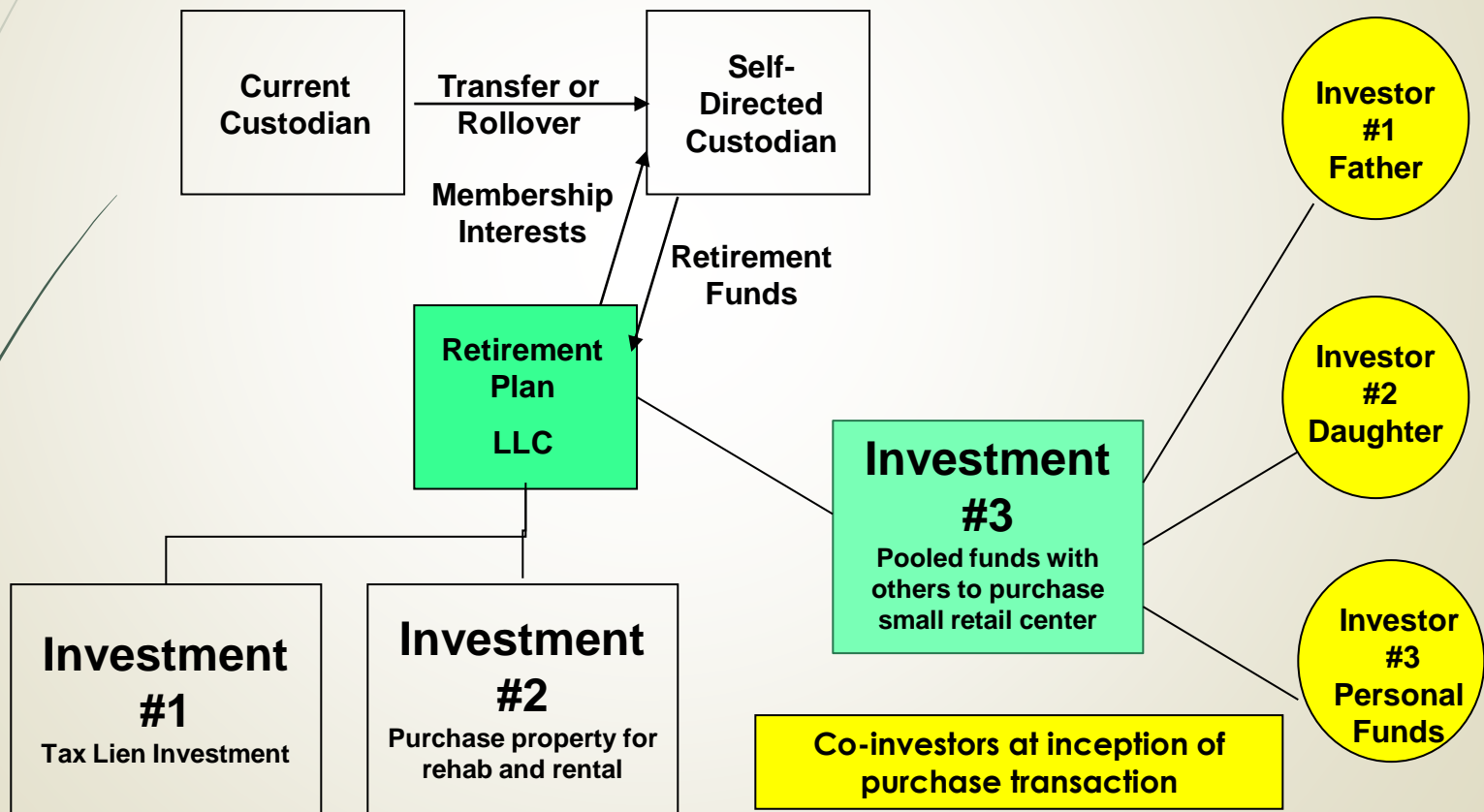


# Partnering with Others

- Self
- Spouse
- Family members
- Colleagues
- LLCs
- Investment Syndications



# Retirement Plan LLC Structure



# Non-recourse Loans

- What is a non-recourse loan?
- No income/employment verification
- Industry standards:
  - Required documentation
  - Loan guidelines
  - Eligible & ineligible properties



# UBIT and UDFI

- Unrelated Debt Financed Income
- Applies to income generated from an asset that was purchased using financing
- Based on Net Income of property
- First \$1,000 exempt
- % of taxable income based on ratio of debt on the property
- When asset sold, % of gain subject to UDFI tax

# Example Rental Investment

## Rental Property - 50% debt financed

Annual Net Rental Income	\$12,000 (\$1000/month)
Income Subject to UDFI	\$5,000 (\$6,000-\$1000)
2023 Trust Tax Rate	10%-37%
UDFI Taxes	\$794
Net Income After UDFI	\$11,206



# Unrelated Debt Financed Income

- Taxable at the Trust Tax Rate
- Reported on IRS form 990-T
- Tax paid from Retirement Account
- Discuss with your Tax Advisor



# Q & A

# STC, Inc.

- ❖ **Website: [www.stcira.com](http://www.stcira.com)**
- ❖ **Corporate Office: 866-682-3683**
- ❖ **Jackee Knight: [jknight@stcira.com](mailto:jknight@stcira.com)**



**CONTACT US**