

Can you put your new home in an IRA?

I get that question often.

Your IRA cannot purchase any real estate that you plan to live in personally or that will be used as a residence of your immediate family. However, the IRA can be used to purchase real estate investment properties or vacation homes.

The money that is collected each month from your rental or vacation home is deposited back into your IRA. The income that flows in from investment properties held in IRAs grows tax-free and can be distributed usually at age 59 1/2

In order to take advantage of this type of financial vehicle, you must use a self-directed IRA. This type of IRA does carry restrictions. The property must be used purely as an investment, with all the income going directly back into the IRA. The owner may not occupy the home or even use it as a vacation property. The owner can manage the property, doing maintenance and supervising the renting, or can hire a property management company which would be paid for out of the IRA.

You can't buy real estate with your basic IRA; you need to open a self-directed IRA. Banks, insurance companies and brokerages will help you open a self-directed IRA, but, generally, they limit your investment options to the products they sell. To buy real estate you can hire an independent administrator to serve as a trustee or custodian.

You can't put anything but cash initially into an IRA, but once you have the put in the cash, then you may purchasing investment property with it.

This strategy could be especially attractive if your goal is to buy properties and flip them or rehab and sell them or buying and holding where you have tenants. The rent goes into the IRA."

You can use an IRA for real estate investments whether you're a hands-on person or an investor who prefers relying on someone else's expertise.

You should recognize that this strategy can be complex and costly and I recommend that you get the help of tax advisor before proceeding.

Costs can add up, because you'll need to pay for help to make the purchase, oversee the account, and--if you acquire a building with tenants--handle the management. The IRA should also have enough cash to pay for mortgage, taxes, and other related expenses.

One benefit to acquiring real estate through an IRA is that if you sell at a profit, you can postpone or totally avoid paying taxes on the gains. If you make the transactions through a tax-deductible IRA, you'll pay ordinary income tax when you start taking money out after age 59 1/2. Chances are you'll be retired and your tax bracket will be lower at that point than it was at the peak of your career.

You can wait until 70 1/2, when you're required to start withdrawals. The distribution amount depends on your age and the fair market value of your IRA's assets. Realize that if your account lacks the cash to meet the withdrawal requirement, you'll have to sell the property--even if the market is down.

The views expressed in this article are the opinions of the author, and should not be interpreted as individualized investment advice; investment objectives, risk tolerances, and the financial situation of individual investors may vary. Please consult your financial and tax advisors before investing.