Marc Linsky Looks at the Pros and Cons of Setting Up Your IRA in Real Estate

WEST PALM BEACH, FL, UNITED STATES, May 9, 2020 /EINPresswire.com/ -- You probably know by now an IRA is an Individual Retirement Account into which you deposit tax-free money each year for retirement. Most people associate IRAs with cash deposits of gifts, year-end bonuses, or even savings accounts. But were you aware that an IRA can consist of other investments as well? Real estate is one of the choices for those investors that aren't afraid to diversify. Here [Marc Linsky talks](#) about the pros and cons of having your IRA in real estate.

"There are a number of benefits and drawbacks to having your IRA in real estate," [Marc Linsky says](#). "Unfortunately, most people aren't aware of them." For example, the financial return on real estate in a growing market can outperform some of the best stocks, he says. "That's if you know what you're doing," he adds. Some investors prefer a REIT (real estate investment trust) or mutual funds that invest in real estate. Others have found they like having tangible real estate as an investment, even though it's not simple to set up, Marc says.

To start an IRA in real estate, Marc Linsky says, it needs to be set up as a trust, which is more expensive to create and maintain, compared to a regular IRA which doesn't require any special treatment. A trust is its own entity and considered completely separate from you, but you will own it, Marc Linsky says. The IRA needs to be set up as a self-directed IRA. This means that you don't have a brokerage account or bank overseeing it, and you'll make your own management decisions, he says.

You will need what's called a custodian for the trust to handle all the details. "Self-directed IRAs are strict, and all your transactions must be funneled through a custodian who handles everything," he says This custodian is not a manager, he adds, and won't give you advice or tell you what to do with your account. They are simply there to manage the paperwork for you, he says.

Next, Marc Linsky says, the real estate itself must be used only as an investment. That means no second homes and no commercial office space you'll later use. "The IRS has strict rules about what type of properties are acceptable," he says. You must be careful here, he adds, since any violation of any of the rules will void your IRA and turn your investment into taxable income.

"Part of the reason we don't see too many IRAs set up this way is that it takes a pretty big IRA balance in order to buy real estate investments," Marc Linsky says. Another reason it's not wildly popular is that the purchase needs to be in cash from the trust, and you can't use a mortgage or other loan as financial leverage. You also don't get the deductions of homeownership for the IRA, like interest deductions, Marc says, since the trust owns everything, not you. "Then there are tax penalties for things like contributing any of your own money for repairs," he says, "so it's important to have enough money in there to cover everything."

However, once you have satisfied all the IRS requirements for setting up your IRA in real estate and if you've chosen your property correctly, you can expect a steady income stream from rents. This can grow an IRA faster, Marc Linsky says, since all income from the investment goes back into the IRA. "You can also sell or trade the property for other real estate investments," he says, "so there is some flexibility there."

"There are a few other rules," Marc Linsky adds, "so be sure to get with your certified financial planner to set it up correctly. Give me a call if you need help getting started."

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