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Buying Foreign Properties with Your IRA

Foreign investing is a huge draw for many, but did you know that a self-directed IRA can purchase your desired property?

The concept of buying real estate with your IRA always seems to spark a great interest. For many people this is a convenient way to utilize money that's been put aside over the years to purchase a property and hopefully grow their IRA funds.

But what about investing in real estate outside of the US?

Here's a question from one of my readers:

"I want to buy foreign land which may get converted into residential property in say the next 5 years. Can I create the IRA LLC and fund the IRA LLC using Self directed 401K and then buy non-US based land?"

The answer is yes, according to Dan Cordoba, founder of Asset Exchange Strategies, LLC in Leander, Texas.

"Most self-directed IRA custodians will not allow people to purchase foreign investments with their self-directed IRAs. However, there is nothing in the IRS code that precludes anybody from purchasing property outside the US And so when you call [some custodians] and ask them that very same question, they'll say 'no you can't' and they make it sound like it's IRS regulation when it's actually just their policy," says Cordoba.

The biggest reason some self-directed IRA custodians will not allow foreign real estate investment purchases is because they don't have visibility of the asset.

"For example, they can't just call a real estate agent and say "go value this property" or determine the value of it. They're very much at the word of whoever the individual is," explains Cordoba.

If you plan to use your IRA to buy real estate in the US or outside there are some specific things you should look for in a self-directed IRA custodian.

The first is checkbook control, "Meaning you can write your own checks thereby reducing the transaction costs which are the most expensive part of a self-directed IRA," says Cordoba.

The second is to make sure that you can make your own investment decisions without having to ask the custodian for permission.

The third is to have the IRA in the form of an LLC. "The LLC provides litigation protection for the IRA which people do not have now nor do they have with a self-directed IRA custodian," says Cordoba.

"There is a large interest today in the investment in foreign properties with an IRA. Typically, when people call a self-directed custodian or administrator the answer is 'No, we can't help you.' However, if an IRA holder employs the use of an IRA LLC then the world becomes their investment oyster shell," says Cordoba.

The fourth is to look for a low, flat custodial fee per year.

A few other important things to note are that profits earned are returned to the IRA. Also, if the property is leveraged, the debt must be a non-recourse promissory note and then you will have unrelated debt-financed income taxes to pay. Your IRA will also have to have enough funds to pay for taxes, property expenses and repairs for the property. If your IRA doesn't have enough funds to purchase a property, you can partner with another person such as a friend, relative or business associate to purchase the property. Each of your IRAs would then purchase a specified interest in a particular property. It's critical you research and understand what taxes and how much may have to be paid prior to investing in real estate using your IRA.

Keep in mind that the IRA cannot purchase property that you want to use as your primary residence, vacation rental or as your business office. However, at 59.5 years or older, you can withdraw your real estate from your IRA to use it as a primary or second home without a penalty. Depending on the type of IRA that held the real estate, there may be taxes associated with the process.