

Selling Land Using IRAs

THE BEST-KEPT SECRET FOR LAND BROKERS

How does
it work?

Four out of 10 people have IRAs. 40% of your clients have access to additional funds for investing in your deals, they just don't realize it.

The average person has over \$100k in their IRA account. Most people don't know they can use their IRA funds to invest in alternatives like real estate.

1

Select the lot that meets the client's needs and agree to the selling terms. Remind the client that while the IRA is the owner of the property, there is no personal use allowed.

2

Client funds the account at Midland IRA by making a contribution, transferring, or rolling over funds from an existing IRA or 401(k).

3

Complete the purchase. Midland will purchase the lot(s) within the account for investment just like a stock or a bond.

Most people have money in an IRA to invest—

you just have to ask!

www.midlandira.com



MIDLAND
SELF-DIRECTED IRAs & 1031s

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Land Investing

BUYING LAND WITH YOUR IRA

FAQs for Clients

Q: *What is a 401(k)?*

A: A 401(k) is a retirement plan sponsored by an employer. If the account holder currently works for the company, it is unlikely the 401(k) plan can be used to purchase land. When an employee leaves that company, they can roll these funds into an IRA—which allows land investments as assets.

Q: *Do I need to pay cash?*

A: Most IRA deals are cash deals, but an IRA can be a partner with a cash balance. Mortgages are not typical.

Q: *Can I build on the land?*

A: The IRA holder cannot use personal funds to build on land that is owned by their IRA, but they can use IRA funds for this purpose. When an IRA owns real estate, the IRA must pay ALL expenses including property taxes, HOA dues, and construction costs.

Q: *Can I live on or use the land?*

A: No. The IRA holder and his/her family cannot use the land owned by the IRA. The land must be used for investment purposes only.

Q: *Can I sell the land to myself when I want to use it?*

A: You cannot buy property from your own IRA, but the land can be taken as a distribution once you are 59 ½ years old. The property is quit claim deeded into the IRA holder's name, which is a taxable event. When the land is no longer owned by the IRA, the owner may use the land however they wish.

Q: *Can I sell the land?*

A: Yes. The IRA can sell the land at any time, and all proceeds flow right into the IRA without any taxation.



MIDLAND IRA IS NOT A FIDUCIARY. Midland IRA's role as the administrator of self-directed retirement accounts is non-discretionary and/or administrative in nature. The account holder or his/her authorized representative must direct all investment transactions and choose the investment(s) for the account. Midland IRA has no responsibility or involvement in selecting or evaluating any investment. Nothing contained herein shall be construed as investment, legal, tax, or financial advice, or as a guarantee, endorsement, or certification of any investments.

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BUYING LAND WITH YOUR IRA

Common Scenario

Q: *If I use my IRA to build on this lot, can I build my dream home on it?*

A: John, who is 55, wants to use his IRA to purchase a lot for investment purposes. He has no immediate plans to build on the land or use the land personally. However, he may decide to build his retirement dream home in five years.

For as long as the IRA owns the lot, John cannot use personal funds to build on the property. He can use IRA funds to build on the land, if he wishes.

IRAs can only be used for investment purposes. If John decides to sell the land at any time, he can. All proceeds from that sale are deposited directly into the IRA account without incurring any taxes. IRAs offer the ability for significant gains if assets are bought and sold at the right prices. John can then choose to invest in more lots with those IRA funds.

Q: *What if John doesn't want to sell the lot, but wants to live on it himself?*

A: If John decides to build his dream home on this lot, he may remove the lot from his IRA via a distribution. It's

important to note that he is not selling it to himself, as that is prohibited. He is withdrawing the land as he would cash from the IRA.

John should wait until he is 59 ½ years old to avoid the 10 percent early withdrawal penalty. If his account is a traditional IRA, distributions are a taxable event in which he would pay ordinary income tax (1099-R) on the value of the lot on the date of the distribution.

If John has a Roth IRA, has reached 59 ½ and has owned the account for more than five years, he can simply request the distribution and pay no additional income taxes. (Traditional IRA owners may be able to convert those funds to a Roth IRA, pay tax today, and never pay tax again on the appreciation of the land.)

Once the distribution is taken, the land's deed is retitled in John's name and he takes ownership. He is then free to build, live on, or otherwise use the land. If he later decides to sell the lot, proceeds would be paid to him personally, and gains are subject to normal taxation.



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BUYING LAND WITH YOUR IRA

Common Scenario

Q: *What if I don't have enough in my IRA to invest? What are my other options?*

A: Ted finds a great lot to invest in that only costs \$50,000. But, he only has \$25,000 in his IRA.

Ted has many options to invest including:

- Partnering his IRA funds with his personal savings
- Partnering his IRA funds with his spouse's IRA funds
- Partnering his funds with a friend/family/other (IRA or non-IRA)
- Use his IRA to take out a non-recourse mortgage (through a bank or a private lender)

The first two options above are the most common. If Ted has \$25,000 in personal savings, he can partner those funds with his IRA's funds on the purchase. In this case, both Ted and his IRA are listed on the purchase documents as two separate buyers. The real estate deed is titled in this manner, as well. Remember the IRA is a separate entity from Ted's personal ownership. The titling will look as the example below:

Midland Trust Company as Custodian FBO Ted Jackson IRA #1234 for an undivided 50% ownership, and Ted Jackson for a 50% undivided share

Notes of interest:

- Even though Ted owns 50 percent of the lot personally, he is still unable to use or vacation on the property. (If the IRA evened owned just 1 percent, this is still the case.)
- Any expenses for the land are paid 50/50. This includes property taxes, HOAs, construction costs, etc.
- Ted can take a distribution of his 50 percent ownership share from the IRA without penalty once he reaches 59 ½.

If Ted decides to try to get financing to purchase the land, these facts apply:

- The loan must be non-recourse. Ted cannot sign a personal guarantee.
- The loan is acquired in the name of the IRA, and the IRA is required to make the loan payments.
- Ted needs to ensure his IRA maintains enough funds to make the loan payments. He is unable to make payments with his personal funds.
- Loans are far less common than finding a partner, but the option is there.



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