



Ask the Biz Brain

Tuesday, February 15, 2005

Can you roll over a traditional IRA into an out-of-state property, avoiding taxes and allowing the IRA to be invested just in real estate? -- Grace

The simple answer is yes, but as with most tax-related issues, the answer isn't simple.

Marnie Aznar, a certified financial planner with Aznar Financial Advisors in Morris Plains, says you can invest IRA money in a wide range of investments, including stocks, bonds, mutual funds, money market funds, U.S. Treasury securities and yes, real estate.

But the biggest challenge is to find a custodian that's willing to handle it for you, as most don't allow for real estate purchases in an IRA, and you're not allowed to personally manage the property.

Additionally, she says, you can't use the property for personal use or rent the house to your spouse or ascendants or descendants, and it must be an investment property.

By putting the home in an IRA, you'll lose the ability to deduct expenses, such as property taxes and mortgage interest. Plus, the rent you get from the property will have to cover all of the operating costs, or there must be sufficient liquid funds available within the IRA to pay these costs.

Hal Terr, a certified public accountant and CFP with WithumSmith+Brown in Princeton, says the simplest way to invest in real estate within an IRA is to buy the property from an unrelated party with cash. He says your IRA can also buy property through borrowing, provided the loan is not guaranteed by the IRA owner and the IRA has enough cash to meet the mortgage and other expenses. He warns you need to be aware of a special tax on debt-financed income in retirement plans called unrelated business income tax, or UBIT.

Aznar says you may want to consider purchasing a Real Estate Investment Trust, or REIT, in your IRA instead of purchasing the property itself.

--Karin Price Mueller