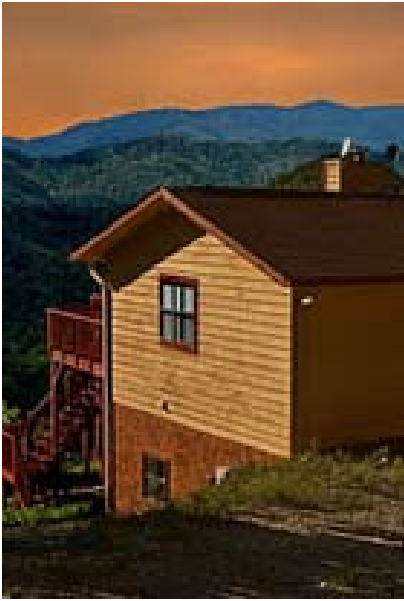




## Case Study: Purchasing a Second Home in an IRA or 401k

# Can I Own a Vacation Home in my IRA?



Summer vacations are the perfect time to find a dream home in the perfect location. Today's investors sometimes need clever solutions for affordability, so it's important to be aware of all of the available investment tools. One such tool is the self-directed IRA. Did you know that your IRA/401k funds can be used to buy real estate?

**Buying property using an IRA/401k not only provides critical investment capital, it also has associated tax advantages.**

**Want to learn more? Visit [SecondHomes.NewDirectionIRA.com](http://SecondHomes.NewDirectionIRA.com)**

### Three Options to Consider:

**1. Second home is purchased and held directly by a self-directed IRA for investment purposes only.** This scenario is the simplest. Existing IRA or 401k funds are used to fund the investment account, which purchases real estate to be owned by the IRA and receives special tax treatment by the IRS. *For more detail on this investment scenario visit [RealEstate.NewDirectionIRA.com](http://RealEstate.NewDirectionIRA.com).*

**PROS:** Vacation homes in desirable locations can be valuable investments. While the IRA owns the property it can be rented out to vacationers. Many investors also enjoy holding hard assets like real estate in addition to or instead of paper assets as part of their portfolio. The investment grows tax-deferred or tax-free since it is owned by the IRA.

**CONS:** You cannot personally use any real estate owned by your IRA account. This second home would be purely for investment purposes.

### IMPORTANT CONSIDERATIONS:

Look at the monthly cashflow and potential resale value of the property. Will the return on investment for the second home be equal to or greater than the investments currently held by your retirement account? If so, it is probably worth looking at the investment as a potential option for your IRA/401k plan.

**2. Buy the property now and plan to live there after you retire.** Up to age 59 ½ this option would work identically to Option 1 above. At age 59 ½ you can elect to take a percentage (up to 100%) of ownership in the IRA-owned property in lieu of cash distributions from the IRA. Once you have distributed 100% ownership, you are permitted to use the property as a vacation or primary home. *For more detail on this investment scenario visit [RealDistributions.NewDirectionIRA.com](http://RealDistributions.NewDirectionIRA.com).*

**PROS:** Purchasing the property now protects your ability to own the property at retire-

ment. As real estate in popular resort areas continues to rapidly rise, you will have locked in your price at today's cost.

**CONS:** This strategy requires patience. You cannot personally use the property until you have distributed 100% ownership after age 59 ½.

### IMPORTANT CONSIDERATIONS:

Taking the property distributions can take time. Talk with your advisors and make sure that you are willing to wait the necessary time.

**3. Take advantage of the 72t exemption to make mortgage payments on the second home via distributions from your IRA without the usual penalty.** This scenario is the most complex and will require consulting with a team of professionals to execute properly. Essentially, the IRA invests in an annuity or other investment with stable payments to the IRA owner. These payments are used to secure and pay the mortgage on the second home. *Contact our office for a free follow-up consult or for a report on 72t distributions or visit [72t.NewDirectionIRA.com](http://72t.NewDirectionIRA.com).*

**PROS:** You can begin using the property immediately as it is owned directly by you. By utilizing a 72t exemption the usual 10% early withdrawal penalty may be avoided.

**CONS:** In addition to the complexity of this arrangement, you lose all of the tax advantages of IRA-owned properties. Therefore taxes apply to both the rental income and the sale of the property. While the penalty is avoided via 72t exemption, tax must be paid on the distribution also.

**IMPORTANT CONSIDERATIONS:** You must already have enough wealth to create an annuity or other investment that provides guaranteed or stable payouts substantial enough to pay the property mortgage.

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