IRA Loan â€" Investing in Commercial Properties

By Corwin Smith

Article published on April 24th 2012 | Loans

An IRA loan is available when you want to invest in any kind of real estate, including commercial property, through your self-directed IRA, but do not have the entire amount of funds to purchase a property. For example, your self-directed IRA may have 30 percent of the purchase price, but you would need to make up for the other 70 percent through a mortgage. Traditional mortgages do not fit the bill because they put your personal assets at risk via a personal guarantee. Additionally, the IRS prohibits using any IRA assets as collateral for any loan with the exception of real estate.

The solution is using non-recourse financing to take out a loan without making the IRA the collateral. The collateral in this case would be the commercial property you purchase with the loan proceeds, thus limiting the liability to the cash put into the property in the form of the down payment.

Before you invest in commercial property or apply for an IRA loan, you must know what kind of property makes sense to purchase. If your current IRA custodian does not allow investments in real estate, there are many other custodians out there who will allow different kinds of alternative investments. Similarly, there are lenders who are willing to provide an IRA loan to invest in commercial property. Because you are expected to pay at least 30 percent through your IRA savings as down payment, you should invest carefully.

Using an IRA loan, you can invest in office buildings, hotels, farms, residential investment properties, and various other types of commercial properties.

There are many reasons investors consider this the perfect time to buy commercial real estate:

1. Poor performance of the stock market: Real estate investment is an attractive alternative to investing in the stock market, which has not been very stable in recent years.

2. Cheap property: The number of foreclosures across the country has lead to property prices falling drastically, making this a good time to invest in commercial real estate.

3. Good returns: Historically, real estate offers good returns on investment.

Select Carefully

When purchasing commercial property with an IRA loan, you should be careful not to invest in prohibited assets. Otherwise, the IRS will extract a penalty. Examples of this include: you cannot buy real estate from parents, spouses or children through a self-directed IRA. You cannot rent it to them either.

You should also determine if there is any the Unrelated Business Income Tax(UBIT) incurred on the investment. UBIT covers the portion of income based upon the amount of leverage on the property. For example, on a 50% loan to value with an IRA loan, letâ€™s suppose there is $10,000 per year of net rental income on the property. Under UBIT, because the leverage on the asset is 50%, this means 50% of the income generated from the asset would be subjected to this taxation. Some IRS tax regulations are hard to understand; and so it is recommended that you approach a tax expert for help and information.

Investing in commercial properties through an IRA loan is a smart way to build a retirement fund, since all benefits, such as rents, go to the IRA, and take advantage of its tax status. If a loan is

needed to make a purchase, talk with a lender who specializes in IRA loans to ensure you obtain the correct loan type to keep you safe from personal liability for the debt.

Article Source:
http://www.articleside.com/loans-articles/ira-loan-investing-in-commercial-properties.htm - Article Side

Corwin Smith - About Author:
For more information regarding a IRA Loan, please visit a Islandviewmortgage.com

Article Keywords:
IRA Loan, IRA Loans

You can find more free articles on Article Side. Sign up today and share your knowledge to the community! It is completely FREE!