Real Estate IRAs: Secrets Revealed

by Dick Desich

Equity Trust Company

Thank you for requesting my free mini-course, "Real Estate IRAs: Secrets Revealed."

Let me begin by sharing a few critical facts that are important to remember:

According to the Social Security Board of Trustee's 2006 Annual Report, the Social Security system will begin to run a negative cash flow by the year 2017, and by the year 2040 it will be completely insolvent!

The total in unfunded liabilities for Social Security and Medicare in present value (or in today's dollars) is $45 Trillion... the ENTIRE net worth of America is $42 Trillion!

So what is this telling us? Very plainly, that we need to take our future into our own hands. We need to use our knowledge and expertise, coupled with the tools the government has given us, to not rely on Social Security as our safety net.

You see, dollar-for-dollar, nothing provides a better return on investment than investing in what you know (real estate) in a TAX-FREE environment.

Think about it. Consider how much more you would have pocketed on the best deals you've ever done if they had been made in a tax-free environment. Remember when that hot stock tip burned you?

Imagine investing in a piece of property just down the street – a real, tangible asset! Would it make you sleep better at night, knowing that you could go and see your retirement growing in front of your eyes?

In this seminar, you will discover the secrets to Real Estate IRAs and wealth generation for you and your family.

So let's get started...

Real Estate IRAs: Secrets Revealed - Part I

Knowledge is Power: The Basic Incredible Wealth-Building Secrets of IRAs

The Basics

Do you think that your only retirement investment option is the stock market or low-yielding CDs?

Most real estate investors aren't aware that they can use their retirement savings, such as IRAs, 401(K) and other qualified plans, to invest in real estate. In addition, many do not fully understand the incredible wealth-building powers these government-sanctioned plans hold.

Any IRA invested in low-interest CDs or government bonds will grow exponentially due to the tax-deferred or tax-free status that IRAs possess. That's fine - if you are satisfied with low investment returns and believe that they will keep you ahead of the inflation rate and meet your retirement needs. For most investors, low-rate fixed investments are not the answer, so many have turned to the stock market.

Has the market burned your IRA? *Avoid being churned and burned by the ups-and-downs of the stock market: Use your IRA to invest in real estate.*

Though the stock market can offer significantly higher returns, many investors in recent years have seen their retirement plans derailed or significantly altered. Historically, the stock market has been a sound investment over time. But looking more closely, the market has achieved virtually all of its gains over relatively short bull-market surges.

Given its historic ups-and-downs, do you really want to bet your retirement exclusively on the U.S. stock market rising in value? Can you be confident that the money you will need will be there when you need it?

You do have options.

Other investors, using their current investment strategies in real estate or other alternative assets, are able to achieve substantially greater returns in their IRA plans than they would by investing in stocks or mutual funds.

When you combine the powers of an IRA with the knowledge and expertise of a real estate entrepreneur, the result can be can opportunity for tremendous financial growth.

By creating, transferring, or rolling over a 401(k) to a truly self-directed IRA, you will have complete control on how these funds are going to be invested. Imagine being able to complete real estate transactions almost exactly as you are currently doing them, but gaining the added advantages offered by IRAs and their tax-deferred/free status.

Why haven't I heard about this before?

Most investors don't know this opportunity exists because most IRA custodians do not offer truly self-directed IRAs. Often, when you ask your custodian/trustee, "Can I invest my retirement funds in real estate?" they will say, "I've never heard of that" or, "No, you can't do that."

What they really mean is that you can't do this at their company because they have a vested interest in getting you to invest in their stock, mutual fund or CD products. As a truly self-directed IRA custodian, Equity Trust (www.trustetc.com) will not only allow you to invest in all forms of real estate (or other investments not prohibited by the Internal Revenue Service), they will help show you how to do the investments and make sure they are done quickly and done right.

As mentioned before, an IRA is one of the most powerful wealth-building tools available to real estate investors. But why is this? What benefits can an IRA offer that your present investing strategies cannot? Well, there are several benefits, and later you will see how an IRA can offer investors much more than just a way to save for retirement.

What type of returns can you make investing in real estate? 10%? ...20%? ...30%?

Real Estate IRAs: Secrets Revealed - Part II

The Power of Tax-Free Compounding Interest: A Real Life Example of a Real Estate IRA Deal

Amassing a Fortune...The Power of Tax-Deferred Compounding Interest

"The most powerful force on earth is compounding interest" - Albert Einstein

One of an IRA's greatest features is that it allows Americans to enjoy the true power of tax-deferred compounding interest. What is compound interest? Compound interest is basically interest on interest.

For example, when you make an investment and receive a return, you are able to enjoy interest on both the investment principle and the earnings you have accumulated. The additional interest you make on your profits is called compound interest.

Compounding can occur with any investment you make, but the "true" power of compounding interest is obtained when you make an investment in a tax-deferred environment. By taking advantage of an IRA's tax-deferred status, you do not have to pay tax immediately on your earnings. Thus, you are able to enjoy the power of compounding on ALL of your profit, not only what is left after taxes.

Tax-Free Scenario: The Power of Compound Interest

Let's look at an example that illustrates the power of a tax-deferred environment. In this example, we have a man who is 35 years old and contributes $2,000 annually to his Traditional IRA, until the age of 65. These 30 contributions total $60,000.

Assuming a 10% annual rate of return, this individual's IRA at age 65 will be worth over $400,275!

Remember, this example was based on contributions to a Traditional IRA. A Traditional IRA is funded with before-tax dollars, which, in most cases, are tax deductible, and taxes are deferred until funds are distributed.

An even more powerful investment vehicle is the Roth IRA. With the Roth, contributions are made with after-tax dollars, so you don't receive a deduction, BUT your earnings will not be taxed when you make a qualified distribution.

Imagine making the same deals you are currently making, but receiving your profits tax-deferred or tax-free! All simply by using your IRA for your investment!

Taxable Scenario: The Loss of Compound Interest

Now, let's look at the same investment made outside the IRA's tax-deferred environment. We will use the same assumptions as above, except the individual's investments would be subject to a 28% annual tax rate. The total value in the same individual's account at age 65 would be just $227,220.

Your "business partner," the federal, state and local governmental budgets you help to support, have claimed more than $170,000 of your profits!

Tax-Free Profits Using Your Knowledge and Expertise: A Real-Life Example of Combining Real Estate and Self-Directed IRAs

Sherman Ragland is a real estate investor from the Washington, D.C. area, and an Equity Trust client. While searching for investment properties, Sherman came upon a two-bedroom home that he was able to purchase for $24,000.

Recognizing that this would be a good deal for his retirement account, Sherman instructed his custodian (Equity Trust) to purchase the property on behalf of his IRA.

Real Estate IRAs: Secrets Revealed - Part II

The Power of Tax-Free Compounding Interest: A Real Life Example of a Real Estate IRA Deal

The property needed improvement so that it could be rented out, and Sherman instructed Equity Trust to submit $7,500 to a general contractor. After repairs were complete, the home was put on the market as a lease-to-own property and was rented out for one year at $10,000.

The rental income flowed directly into Sherman's IRA. During this time, Sherman added a third bedroom that cost approximately $20,000, paying for it out of his Equity Trust IRA. The following year, Sherman's tenant qualified for financing and Sherman's IRA sold the home for $135,000.

Let's take a look at how this deal worked out for Sherman. With the $24,000 initial purchase price and $7,500 in fix-up expenses, plus $20,000 for the addition, Sherman had total expenses of $51,500 in the deal. He had $10,000 in rental income and netted $135,000 on the sale, for total income of $145,000. After expenses, Sherman realized a $93,500 profit!

This profit remained in Sherman Ragland's IRA at Equity Trust, ready to be invested in the next deal Sherman found. If he had done the same investment outside of his IRA, using personal assets, Sherman would have paid 28% in federal, state and local taxes leaving him with a profit of $67,320.

The difference for Sherman Ragland, in just this one deal, was $26,180!

In addition to the power of compound interest, other tremendous advantages IRAs can offer include reduction of taxable income, asset protection and estate planning.

Again, ask yourself what type of return you can make investing in real estate. 10%? ...20%? ...30?

Real Estate IRAs: Secrets Revealed - Part III

Maximize Your Contributions: Write Off Up To $50,000 in Taxes This Year Using IRAs

Make More Now, But Owe Less in Taxes:

Save and Shelter up to $50,000 in Income Every Year, PLUS Get a 100% Deduction

In addition to letting you experience the "true" power of compound interest, many IRAs can reduce your taxable income as well. As savvy investors, individuals who self-direct their IRAs to invest in real estate or other alternative assets will want to maximize the contributions they are allowed to make toward their retirement.

Most people are aware of the Traditional and Roth IRAs. However, they may not be aware that government-sponsored retirement plans are also available for self-employed individuals and small business owners, in addition to their Traditional or Roth IRA.

Real estate investors need to realize that they are eligible to take full advantage of small business retirement plans created by the federal government. These plans are as easy to set up as Traditional or Roth IRAs. Once established, they become similar to Traditional and Roth IRAs, yet allow individuals to contribute considerably more than the $4,000 limit which took effect in 2005 for those two plans.

If you are interested in receiving greater deductions, a SIMPLE IRA, SEP IRA or SOLO 401k may be right for you. With these plans, real estate investors can contribute up to $50,000 annually to their self-directed IRAs and receive a tax write off for that contribution!

Which Plan is Right for You?

The SEP IRA (Simplified Employee Pension Plan)

The Simplified Employee Pension Plan (SEP) enables individuals to contribute the most toward their own and their employees' retirement. An employer may contribute up to 25% of each eligible employee's annual compensation with a maximum of $45,000; only income up to $225,000 can be considered. The employer is allowed to make contributions annually, but is not required to contribute each year.

Your spouse and children may also participate in the plan and open their own SEP IRAs – as long as they are employees of the company and meet the income requirements.

The SIMPLE IRA (Savings Incentive Match Plan for Employees)

We often recommend that investors who receive less than $50,000 in annual compensation choose the SIMPLE. This will allow them to contribute the maximum amount to their IRA.

Another favorable point about this plan is that, if you have employees other than your family, as the employer, you are only responsible to match if the employee contributes funds first. In addition to these benefits, after two years, you may be able to convert your SIMPLE IRA to a Roth IRA.

With a SIMPLE plan, employees can choose to make salary reduction/deferral contributions directly into an Equity Trust SIMPLE IRA, rather than receiving these amounts as part of their regular salary. There is a maximum employee contribution of $10,500 if you are under age 50, and $13,000 if age 50 and over. In addition, the employer contributes matching funds (up to 3%) into their employee's SIMPLE IRA at Equity Trust.

Your spouse and children may also participate in the plan and open their own SIMPLE IRAs – as long as they are employees of the company and meet the income requirements.

The Individual(k) or Solo(k) Plan

The Individual(k) plan, also known as Solo(k), is only appropriate for a sole proprietor or a business (either a partnership or a corporation) in which only the owner(s) and spouse(s) will be covered by the plan. It must be the only plan maintained by the business, and the business cannot be considered part of a controlled group under tax law.

Real Estate IRAs: Secrets Revealed - Part III

Maximize Your Contributions: Write Off Up To $50,000 in Taxes This Year Using IRAs

Two components comprise the maximum Individual(k) plan contribution: an employee salary deferral contribution and an employer profit sharing contribution. The employee is able to contribute up to $15,500 through salary deferral, although this may not exceed 100% of pay. The employer profit sharing contribution limit is up to 25% of pay, or 20% for self-employed.

There is a total contribution limit, from both sources, of $45,000. However, under a "catch up" provision, individuals age 50+ may contribute an additional $5,000 in salary deferrals beyond the $15,500, allowing for a total contribution limit of $50,000 in 2005. The deductibility limit is the lesser of 100% of salary or $45,000 ($50,000 if age 50+) and only income up to $225,000 can be considered.

Remember, spouses are eligible to open their own Individual(k) account if they have separate income and are covered in the plan.

Other Tax-Advantaged Investment Plans

The new Health Savings Account (HSA) can help reduce your health insurance premiums by as much as 70%, and HSA contributions are tax-deductible (subject to limitations). Set aside funds in your HSA to pay current and future medical expenses. An individual may contribute up to $2,850, and a family may contribute up to $5,650 annually.

The Coverdell Education Savings Account (ESA) is a trust or custodial account created only for the purpose of paying the qualified education expenses of the designated beneficiary of the account. When the account is established, the designated beneficiary must be under age 18 or a special needs beneficiary.

The annual contribution limit is $2,000 for each beneficiary, no matter how many Coverdell ESAs are set up for that beneficiary. Contributions are not tax deductible, but amounts deposited in the account grow tax free until distributed.

A Real-Life Example of Maximizing Contributions AND Tax Write Offs Using Self-Directed Retirement Plans

Let's look at an example of how an entrepreneur could considerably lower his/her taxable income utilizing IRAs.

The Smiths are a family of four living in Any Town, USA. John Smith has a business that involves investing in houses. He employs his wife, Mary, and their two children. Between the four of them, the family has a $70,000 annual income.

In order to maximize their contributions to an IRA and lower their taxable income, they have chosen to have both a Traditional IRA and a SIMPLE IRA. The SIMPLE IRA is one of the small business retirement plans (the others being the SEP and the Individual(k)) offered by Equity Trust Company to clients who are business owners.

John and Mary each take $25,000 in income and each of the children is paid $10,000 by the business. John and Mary each make $4,000 contributions to their Traditional IRAs and $10,000 to their SIMPLE IRAs. (We will assume that the Smiths are both younger than 50; if they were older, they would have been allowed a "catch-up" contribution of $1,00 more in each of their Traditional IRAs and $2,500 in each of their SIMPLE IRAs.)

Their total IRA contributions are $28,000 and their taxable joint income is $22,000.

The children could actually shelter all of their income, but instead we will say that they each make $2,000 contributions to their Traditional IRAs and $7,000 to their SIMPLE IRAs, leaving $1,000 each in taxable income.

By utilizing multiple IRAs, the Smith family has been able to effectively lower their taxable income from $70,000 to $24,000, a reduction of 66%! More importantly, the family has made $46,000 in IRA contributions at Equity Trust.

Now that they have these funds available in the tax-deferred environment of an IRA, the Smiths can optimize their real estate investing strategies.

Real Estate IRAs: Secrets Revealed - Part III

Maximize Your Contributions: Write Off Up To $50,000 in Taxes This Year Using IRAs

Protecting Your Hard-Earned Assets Using Self-Directed Retirement Plans

Unlike qualified plans, IRA regulations pertaining to asset protection are created at the state level. In most states, IRAs have considerable protection against most creditors (excluding the IRS and your spouse). By naming beneficiaries for your IRA, you can ensure that your assets are passed directly to your loved ones or causes that are close to your heart, thereby avoiding probate nightmares.

Powerful Estate Planning Tool: Making Your Child or Grandchild a Millionaire

Most investors are attracted to the immediate advantages an IRA offers, such as tax-deferred/free compounding and the ability to reduce their taxable income. What they don't realize is that IRAs are also excellent tools for planning for the future.

You might, for instance, have a newborn in the family and would like to give him or her a head start. Or you may just be enjoying your retirement and would like to plan your estate. IRAs offer considerable advantages.

Here is an example that illustrates the benefits of an IRA. You can actually make your child or grandchild a millionaire with just $2,000. That may sound too amazing to be true, but the numbers don't lie.

If you make JUST ONE contribution of $2,000 on the child's first birthday to his/her Roth IRA, and achieve an annual rate of return of 10%, by the time he/she turns 67, the account will be worth $1,078,816.

Summary

I hope that you have found the information presented in this report valuable. As you already know, investments and sound financial planning can make a huge difference in the enjoyment of your retirement years and the future security of your family.

However, very few people are aware that they can make a self-directed IRA investment in real estate or other alternative assets. Most IRA custodians restrict your options for self-directed IRA investing to standard assets such as stocks, bonds, mutual funds and bank certificates of deposit (CDs).

Equity Trust Company focuses on specialized investments, which most people, and even financial planning professionals, do not realize are allowed per IRS regulations for IRA investments. Our truly self-directed IRAs provide you with complete flexibility to change and diversify your investments whenever you choose.

In addition to public trading in listed investments, we offer our clients the ability to invest in special assets such as: real estate, tax liens, real estate notes (including mortgages and deeds of trust) mobile homes, private placements and other limited partnerships.

Are you ready to take control of your financial future? Do you want to know if you qualify for a $50,000 tax-deduction? Call now to speak with an Equity Trust Self-directed IRA Specialist at 1-888-ETC-IRAS (382-4727).

Speak with an Equity Trust Professional Today!

John Zakel Jr.
Retirement Specialist
1-888-382-4727 x247
j.zakel@trustetc.com