



MIDLAND
SELF-DIRECTED IRAs & 1031s

**REAL ESTATE IRAS
MADE EASY**



About Midland IRA

As the nation's premier self-directed individual retirement account (IRA) administrator,

the regional offices of Midland IRA have over 25 years of experience and success in our industry.

Midland IRA ensures all elements of the facilitation of your account are performed properly and in compliance with Internal Revenue Service (IRS) rules and regulations. We file reports on your behalf, issue statements, and help you follow contribution limits and permissible transaction guidelines. Investors are able to focus on the more important task of identifying promising assets to add to their portfolios.

We do not sell investments

and we do not provide investing, tax, or legal advice. We work at your discretion to fully administrate the needs and requirements of investments you choose.





Why Choose Midland IRA?

With over \$3 billion in client assets

we give you the peace of mind you desire in choosing an administrator for your self-directed accounts.

Real estate is a popular asset in IRAs. In fact, our clients hold approximately \$250 million real estate investments in their self-directed plans. We provide you with the tools and service necessary to confidently invest your retirement funds.

Midland is ahead of the rest

offering cutting-edge technology that allows our clients access to accounts 24 hours a day. Our robust online portal (midland360.com) enables clients to make contributions, request distributions, view statements, tax documents, and pay bills on behalf of the IRA. We also provide a secure document upload feature for time sensitive delivery of important papers.

For more information please visit
www.MidlandTrust.com

Or, call us anytime with your questions.
Our consultations are always free!



What is a Self-Directed IRA?

A self-directed IRA is not a special type of IRA. The term self-directed simply refers to the way the account is administered and the greater choice of investment options available to the account owner. More conventional retirement accounts involve a third party such as a broker or other institution who assists in the decisions and purchase of more traditional assets that they sell, such as stocks, bonds, and mutual funds. Self-directed IRAs are controlled by the owners of those accounts, who have the freedom to choose from a large pool of alternative investments—like real estate, precious metals, private lending opportunities and much more—to build tax-free or tax-deferred wealth for retirement.

What is a Real Estate IRA?

Self-directed accounts that hold real estate as assets are commonly called real estate IRAs. The administration and functionality of real estate IRAs is the same as any other self-directed account. Account owners identify real estate-related investments they wish to acquire based on things they know and understand—retaining absolute control over their own funds and acquisitions.

Over time, real estate investments have empowered investors by providing a combination of appreciation and income. All income and sale proceeds from owning the property stay within the IRA and can then be reinvested in another property. All profits made by the IRA return into the account tax-deferred (or possibly tax-free). By not paying taxes on the growth, your real estate IRA retains more principal to build income for retirement.

COMMON INVESTMENTS PERMISSIBLE IN A REAL ESTATE IRA INCLUDE:

- Single and multi-family homes
- Apartments and condominiums
- Rehab-and-flip projects
- Co-ops and townhomes
- Commercial property
- Improved or unimproved land
- Foreign property
- Tax liens and deeds
- Trust deeds
- Tenant-in-common interests



What Plans Can Be Used to Make Real Estate Investments?

Traditional IRA

A tax-deferred retirement savings plan for individuals. Contributions and earnings are only taxed when distributions are taken. Former employer plans can be directly rolled into a traditional IRA without tax consequences.

Roth IRA

A retirement savings plan for individuals based on taxed contributions, not tax-deferred contributions. The earnings are tax-free once distributions begin provided the IRA owner is over the age of 59 ½ and has had a Roth IRA for at least five years.

Simplified Employee Pension (SEP) IRA

A SEP IRA allows an employer (typically a small business or self-employed individual) to make larger retirement plan contributions into a traditional IRA established in the employee's name.

Savings Incentive Match Plan for Employees (SIMPLE) IRA

The SIMPLE IRA is available to employers with 100 or fewer employees and allows for both employer and employee contributions, similar to a 401(k) plan.

Other Plans Available for Real Estate Investments

Qualified Plan

Qualified plans such as employer 401(k), 403(b), profit sharing plans or individual 401(k) accounts for the self-employed can be used in many cases.

Education Savings Account

ESAs are savings accounts for your child's (or grandchild's) higher education. The money placed into this account is taxed, but the earnings are not.

Health Savings Account

An HSA is the only type of savings plan that offers three tax advantages: a deduction for contributions, tax-free earnings, and tax-free withdrawals.



Options in Funding Real Estate Investments with Your IRA

Real estate can be purchased many ways in an IRA account.

The most popular ways are the following three.

Cash Purchase

If the IRA has enough funds for the entire purchase, it may purchase 100 percent of the asset.

Partnering Funds

Your IRA can partner its funds with a friend, associate, family member or even with you personally. When partnering, any individual (or perhaps another IRA) can be a co-owner in the real estate asset.

On a new purchase, partnering with family members does not make the transaction prohibited if handled correctly. Many clients of Midland IRA only buy a percentage of interest in real estate investments. For example: You are interested in a rental duplex for \$100,000 and your IRA only has \$50,000. You can partner with your father, who can buy the other half. Your IRA and Dad then own the property as tenants in common. All income and expenses relevant to the investment are prorated based on the percentage of ownership. In this example all gains, rents, and expenses are split 50/50.

Options in Funding Real Estate Investments with Your IRA

Your IRA can borrow money to purchase real estate

An IRA can borrow money for investment purposes in the form of a non-recourse loan. When using a non-recourse loan, the IRA owner cannot personally guarantee the loan as IRS rules prohibit an individual from using their personal credit for the benefit of their IRA account. With a non-recourse loan, the property is used as collateral and the lender's only recourse if there is a default is to simply foreclose on the property. Typically, these loans require a larger down payment and owner financing will qualify, so long as there is no personal guarantee from the IRA owner.

When using financing with your IRA, the account may incur yearly, unrelated business income tax (UBIT). It is important to consult with your financial professional or CPA to make this determination and proper payment to avoid complications with the IRS.





Prohibited Transactions and Disqualified Persons

While real estate IRAs permit account owners a wide range of freedom and control in choosing investments, there are actions not permissible in these accounts. In order to prevent your IRA from suffering penalties or even disqualification, you should be aware of certain transactions and dealings with specific individuals you must avoid. These rules are covered extensively in IRC 4975. When in doubt, discuss anticipated transactions with your tax advisor or other financial professional.

With a real estate IRA, account owners may not perform the following prohibited transactions:

- Sell, exchange or lease property to their IRA
- Vacation in or otherwise use property owned by their IRA
- Allow disqualified persons to vacation in or use property owned by their IRA
- Buy, sell or lease property from a disqualified person
- Receive compensation for managing property in their IRA
- Perform maintenance on the property held within their IRA
- Use their IRA property as security for a loan
- Borrow money from their IRA
- Transfer plan income or assets to disqualified persons
- Lend money to disqualified persons
- Furnish goods, services or facilities to disqualified persons
- Allow fiduciaries to obtain or use the plan's income or assets for their own interest

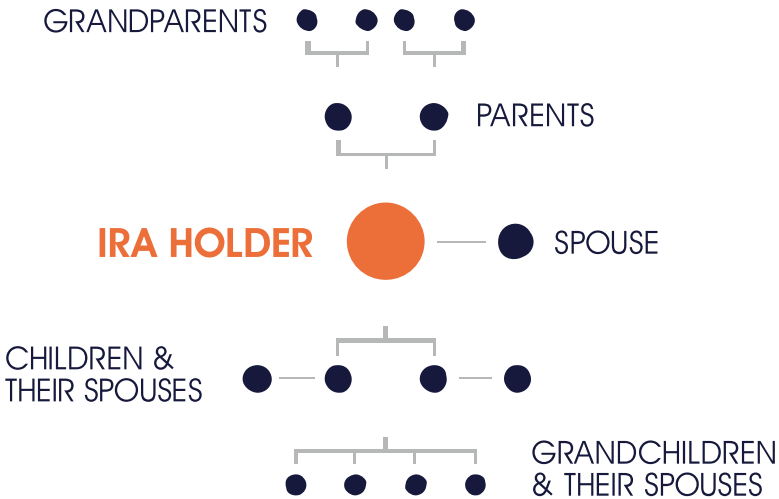
Prohibited Transactions and Disqualified Persons

Disqualified persons for an IRA include:

- The IRA holder and his or her spouse
- The IRA holder's lineal ascendants, lineal descendants, and spouses of lineal descendants
- Investment advisors and managers
- Any corporation, partnership, trust or estate in which the disqualified person maintains control as a president, manager, etc.
- Anyone providing services to the IRA, such as the trustee or custodian

Please keep in mind that partnering funds with a disqualified person may be permitted as long as the transaction is handled correctly. Please contact Midland IRA for proper guidance in this area.

Disqualified Persons





Frequently Asked Questions About Real Estate IRAs

How are income and expenses of my IRA handled?

All income and expenses must flow directly in and out of your IRA. You are not allowed to personally deposit rental checks or payment of any kind that belongs to your IRA. Additionally, all expenses must be paid directly from the IRA and not by you personally. Midland IRA, as the administrator of your account, receives and deposits income to your IRA and pays the expenses out of your IRA.

What are the most common investments in a real estate IRA?

Holding title to a piece of property itself is the most popular investment. Real estate in general has long been appreciated as a viable investment that eventually bounces back from market tumbles and in many cases, increases in value over time. Improved and unimproved land, houses, rentals, commercial properties, rehab-and-flips—provided you perform adequate due-diligence to ensure the investment is a good one—all offer options that can boost retirement income.

Extending private mortgages is another common investment. In these transactions, the IRA loans money to individuals or entities that you fully vet. Income is gained through interest rates and other factors determined by the IRA owner. The property is used as collateral so in case of default, the IRA can take ownership and potentially make a profit by selling it.

How is real estate in my IRA titled?

All assets purchased with IRA funds are titled in the name of the custodian or administrator of the account. The IRA, not you, owns the investment. An example on the titling that would appear on the deed would be: Midland IRA FBO John Doe IRA #12345.



Frequently Asked Questions About Real Estate IRAs

When partnering funds, how is the percentage of ownership distributed?

Ownership is assigned by the percentage of funds each partner contributed to the purchase price. For example, if your IRA purchased 60 percent of the investment and the partner contributed 40 percent, your IRA receives 60 percent of all income and is responsible for 60 percent of the expenses. The partner's income and expenses are based on their 40 percent stake in the investment.

What is a non-recourse loan?

A non-recourse loan is one that is secured by the actual asset you purchase with that loan (i.e., a piece of property). The loan is considered non-recourse because neither the IRA nor the IRA owner guarantees the loan. Unrelated business income tax (UBIT) may apply pursuant to IRC 598.

What are UBIT and UDFI?

If your IRA acquires a non-recourse loan to help purchase real estate, it's important to understand the account may be subject to unrelated debt financed income (UDFI) tax, per IRC 514. This tax has to be paid by the IRA and the tax applies to the income received by the IRA that is related to the percentage of leverage on the property. For instance, if the property is 60 percent leveraged, then 60 percent of the income received by the IRA is subject to that tax. Unrelated business income tax (UBIT), IRC 598, might also be owed when a property is leveraged or acquired via partnerships or other vehicles such as an LLC.

UBIT applies to operating income received from companies owned by IRAs. UDFI tax applies to the portion of the property that has been debt-financed within an IRA. Qualified plans, like the individual 401(k), do not pay UBIT or UDFI.



Frequently Asked Questions About Real Estate IRAs

Do I have to hire someone to manage the property?

No. The IRA owner can handle property management, but you must not perform sweat equity or pay for expenses out of your own pocket. You can hire a third party property manager, but the IRA must pay all expenses.

Can I create an IRA LLC to make real estate investments?

Yes. These accounts are known as single-member LLCs or checkbook control IRAs. This arrangement gives the self-directed IRA owner what is commonly referred to as “checkbook control.” By creating a new LLC and having the IRA as the sole member of the LLC, the IRA owner, acting as manager of the LLC, is able to write checks directly out of the LLC account to purchase investments.

Typically, these account structures are used by individuals who are holding rental properties in the LLC or by individuals who are purchasing multiple assets. Such transactions require a great deal of accounting and the IRA owner is responsible for keeping complete and accurate records. Forming an LLC creates an additional cost and entails a supplementary set of rules that must be followed. Consult with your attorney, CPA, or other financial professional to determine if using an IRA LLC is right for you.



Frequently Asked Questions About Real Estate IRAs

Should I perform a 1031 exchange when I sell real estate in my IRA?

The great part about real estate IRAs is that there are no capital gains inside a retirement plan. There is no need to do a 1031 exchange. All proceeds can be reinvested in to the next piece of real estate in the IRA. There is also no “holding” period for real estate that an IRA must adhere to prior to selling a piece of property. However, Midland IRA does perform 1031 exchanges for properties owned outside an IRA. Please feel free to contact us for more information.

Can I perform repairs or maintenance on real estate in my IRA?

No. Doing so would be considered “sweat equity” and a contribution to your account. Sweat equity cannot be measured in value and the IRS only permits contributions to an IRA to be made in cash. Repairs and maintenance must be paid for at current market rates and must be performed by a third party who is not a disqualified person.





What Documentation is Required When Purchasing an Asset?

Real Estate

The contract must be listed in the name of the IRA and signed by Midland IRA as the administrator of the account. The contract and title include the name of Advanta IRA. An example of how a title is held would be "Midland IRA, Inc. FBO John Doe, IRA #12345." Prior to closing, the IRA owner is required to review and approve all closing documents. Midland IRA signs the documents on behalf of the IRA.

Notes and Mortgages

For notes and mortgages, Midland IRA needs to see the loan documents where the lender's name is listed as the IRA account (Midland IRA, Inc. FBO John Doe, IRA #12345). The IRA owner must read and approve the actual note as well as any mortgage or other agreement to secure collateral. If the loan is not being handled through an escrow agent (like an attorney or title company), Midland IRA must be in possession of the original, signed note prior to funding.

Other Investments

With real estate-related investments not listed above, Midland IRA requires paperwork or documentation proving the IRA is the owner of that particular asset. Please contact Midland IRA for any unique situations on how to ensure the title is held in the name of the IRA.



What is Next?

1. Open an Account

Fill out an IRA account application and submit the originals to Midland IRA. Application documents can be found on our website or you can contact us and we will send you the paperwork.

2. Fund the Account

Transfer funds from an existing IRA or rollover funds from a former employer's plan. If you are eligible, you can also make an annual contribution to your IRA.

3. Start Investing

Send Midland IRA a purchase authorization after an investment has been identified. The purchase authorization can be accompanied by a real estate contract or other paperwork, showing the IRA as the owner. Please contact your Midland IRA office for guidance on the proper wording to use on the documents.

Contact Midland to Get Started!

www.midlandtrust.com

Fort Myers: (239) 333-1032

Chicago: (312) 235-0300

Do you own investment real estate
outside of your retirement account?
Consider a 1031 exchange.

www.Midland1031.com