



Answering the Question: What is an IRA?

Hello,

I'm Richard Geller, CEO and operating manager of [FinancialSuccessInstitute.org](#). If you are not already a regular reader and subscriber to the vital information and resources provided by the Institute, I encourage you to visit the website and signup now at: [FinancialInvestmentInstitute.org](#). The Institute is devoted to researching and providing information about new high return alternative investments that you physically hold in a self directed IRA or real estate IRA or self directed 401K. Almost always, these are very different from what your financial planner tells you about.

In this issue of our newsletter, we focus on the question "What is an IRA?" The answer will surprise many readers not aware of the many different types on IRAs. Even more important is the first article of the newsletter that delves into the question whether an IRA or a 401K is better for investors wanting full control of their financial future. Very few investors know that 401K accounts are available to almost everyone. A 401K doesn't need to be provided by an employer. You'll probably be surprised to learn that if you are self employed, the Solo 401K is a retirement account far superior to any employer sponsored account.

No one cares more about you becoming wealthy than you do and no one else should. You'll do much better taking full control of your financial future starting today! The way to do that is with a Solo 401K. At [FinancialInvestmentInstitute.org](#) you'll learn exactly how to do it!

Please visit us at [FinancialInvestmentInstitute.org](#) to leave general questions and comments. However, we cannot give direct advice because we don't know the details of your situation or all

the laws in your state regarding securities and investments.

Thanks and Wishing You Great Success With Your Investing,

Richard Geller

IRA vs. 401K: Which Is Better?

January 1st, 2012

IRA vs. 401K, which is better?

I'm often asked which is better, the self directed ira or the self directed 401K.

Like everything else in the tax and financial world, the short answer is "it depends" but there is a much deeper answer and this is one that the so-called financial community hates.

The IRA vs. 401K debate boils down to dollars and sense to this so-called financial community.

If you get a self directed IRA or just a plain IRA or a Roth IRA, you need a custodian and that means someone gets custodian fees. And if they don't charge fees, they get to hold your money.

Schwab lets me keep an IRA with them and the fees are modest or non-existent but my money sits in Schwab and I have no choice about it.

If I go to a self directed IRA, I need a custodian. If I go with someone like Equity Trust for my self directed IRA, I may pay them as much as \$2000 a year or more between my various accounts. That's a big fee.

And it's every year.

IRAs always have custodian responsibilities and there is either a fee charged, or a "you are stuck with us" clause.

Not so with a 401K.



Am I cool enough for my own self directed 401K? Photo courtesy of flickr.com/photos/pauldineen/

In the IRA vs. 401K which is better debate, the 401K stands apart (but don't tell anyone!)

In 2002 Congress made the rules around the 401K much better for the average Joe. So now almost anyone can have a 401K. Even if they already have a 401K at work.

If you have your own 401K, you can be your own custodian. Most people don't know this. The advantage is that you get the checkbook. You can put your money in stocks and bonds if you want, or in real estate as a real estate 401K. The self directed 401K has huge advantages:

- No trustee fee
- You can contribute as much as \$50,000 or more per year
- You can roll you and your spouse's IRAs into the 401K and pool your money to make bigger investments
- You can buy an apartment building or a rental house or a future vacation house with your 401K
- You can borrow up to \$100,000 (if you are married) from your self directed 401K and pay yourself back with low interest (and the interest builds in your self directed 401K so you are paying yourself)

So now what is better, a self directed IRA or a self directed 401K?

Now you know the truth. But don't tell anyone. You want to get a self directed 401K. You have all the advantages and none of the disadvantages of the IRA.

However, the self directed IRA industry will argue with you. Because they stand to lose big money once more people know the truth.

Finally, and this is ultra important, if you make a mistake with an IRA, the whole IRA can be treated as a distribution and you can owe huge tax on it. With a 401K there is a much more forgiving process if you make a mistake. And, to top it off...

A self directed 401K asset protection secret

A 401K cannot be easily seized. Even by the IRS. In most cases. Even if you owe money and even in bankruptcy.

This is not true of an IRA. The IRA is being taken down by creditors and the IRS in various states. The 401K has great asset protection and if you own an apartment building or a house or mortgage notes in your 401K or even gold coins (all of which depending on the technicalities and rules are possible investments in a self directed 401K) these cannot be taken by creditors.

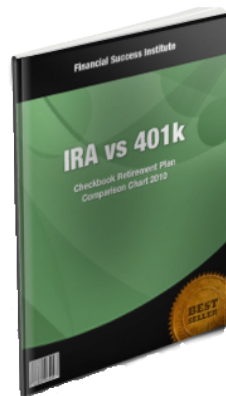
So which is better, the IRA or 401K? Now you know the truth.

Please leave a comment or question. Thank you.

Don't get a self directed IRA until you read this dangerous report!

Click on the eBook Icon for your free Copy!

written by Richard



We've gone to some of the foremost experts who make their money AWAY from Wall Street to put together this report showing you how you can possibly convert to a MUCH better retirement account option that most people don't know about

- Pool most/all of your present IRAs into one "super account"
- Buy rental properties, mortgage notes, or your dream home INSIDE your retirement account
- Get tax free income for life with MUCH higher potential returns than you'll ever get from an annuity
- Buy and HOLD gold and silver coins so you have them PHYSICALLY in your possession, but they are owned inside your retirement account

- Works even if you have a J-O-B, even if your J-O-B already has a 401K for you

Is a real estate IRA a good idea or not?

January 1st, 2012

Real Estate IRA – Our Panel’s Findings Will Shock You

Written by richard

Real Estate IRA – Today’s The Day

Today’s the day when we’ve been studying the real estate IRA with an internal panel that includes a pension consultant with 20 years experience and a well known tax attorney.

Briefly, we’re determining if the real estate IRA is the best way for a person to own real estate in their retirement portfolio.



Can a real estate IRA be used to purchase and rehab fixers and apartment buildings. Photo courtesy of http://www.flickr.com/photos/mr_t_in_dc/

Let me add that we at the Financial Success Institute do help people set up both a real estate IRA and a real estate 401K where each fits a particular circumstance better. So we have nothing against the real estate IRA.

So we have no ax to grind here.

There are companies that provide a so-called self directed IRA or self directed real estate IRA, and they will promote an IRA as the cure-all and say that almost everyone should own real estate in an IRA.

We don’t have that particular bias here at the Financial Success Institute. We think it is right for some, not right for others, and further, that there may be an alternate solution that is “more right” for most people than a real estate IRA or real estate self directed IRA.

Before we get started let’s disclaim our conclusions: You simply MUST consult with a qualified tax advisor who knows the inside outs of both your situation, and local and federal laws including tax laws as they pertain to retirement accounts.

This may mean you have to educate your CPA who probably doesn’t know a lot of this stuff. We find that most accountants

are very competent with preparing routine tax returns but they are not knowledgeable about the complexities of IRAs, 401Ks and the tax code. So you will probably have to find someone else to do this stuff for you.

That said, let’s look at the advantages of owning real estate in an IRA over owning real estate outside of a qualified retirement account.

Advantages of the real estate IRA over owning real estate outside of a qualified retirement account

Real estate owned outside of a qualified retirement account is subject to taxation of course. Now, real estate in an IRA is not subject to any form of taxation if you follow certain rules, so that can be an advantage of owning real estate in your IRA.

However, real estate has some tax shelters built into it. If you purchase improved properties, as opposed to land, you can depreciate the improvements and this depreciation helps offset, or shelter, your rental income.

If you pay \$500,000 for a property, say a small apartment building, then assume that \$400,000 is for the building. The shorter time you are allowed to depreciate the property the greater the immediate write-off.

Your accountant will have to tell you how long to depreciate the property but a common number is 27.5 years. So \$400,000 over 27.5 years would yield \$14,545 in yearly depreciation. If your rental income, after expenses, is less than \$14,545 you will have effectively no taxable income. Yet, you may still have take-home income!

So this is the magic of real estate owned outside an IRA. It is one strike against owning real estate in an IRA.

Another strike against owning real estate in an IRA is the 1031 exchange that is allowed.

Why the real estate IRA may not be the best way to own real estate considering the 1031 tax free exchange

Remember you get to “trade up” properties for other properties, and roll your profits from one property to the other, with real estate. As long as you exchange real estate for more real estate, you have the 1031 tax code that makes the profits non-taxable under certain conditions.

This is the second strike against owning real estate in an IRA. The 1031 exchange is for real estate owned by taxable entities so it is an advantage that does no good for real estate in an IRA.

Now let’s look at the case for owning real estate in an IRA.

The real estate IRA: The case for owning real estate in an IRA

If you own property outside a qualified retirement account, such as real estate owned by you or by a living trust, you will pay taxes when you sell the real estate if you make a profit.

Much of that profit may be inflationary gains. If inflation is 5% per year (which is probably on the low side) then a \$500,000 property will be worth \$525,000 in one year. Yet you will pay taxes on that \$25,000 gain as if it was a real capital gain.

If you own the real estate IRA and the real estate is sold out of your IRA, then the IRA is a tax deferred vehicle and you won't pay taxes on the gains at all.

So there is zero inflation tax on real estate in your IRA that is sold at a profit.

And if you have rental income over and above operating expenses and depreciation, there will be no tax paid on that either.

This is a huge advantage to owning real estate in your IRA, the real estate IRA as some call it.

But watch out because a huge hidden pitfall makes the real estate IRA less than desirable for many and that is UBIT, Unrelated Business Income Tax. I will simplify it here and remember to consult your tax advisor because we are over simplifying and will be committing errors when we come down to specific cases, so please make SURE you don't take this as gospel but use it to check out your own situation.

The debt profit trap in a real estate IRA

The beauty of real estate is often that you can extend your profits by leverage, using debt to increase your cash on cash returns.

If you purchased the above example apartment building for \$500,000, what if you only put \$200,000 down? If the building is worth \$750,000 when you sell it, you have put in \$200,000 and got back \$250,000 (ignoring closing costs and other complexities) and your cash-on-cash return was 125%!

But watch out! If you borrow money for real estate inside your IRA, the profits arising from that borrowed money may and probably will be taxable!

This is a terrible tax trap with the real estate IRA and it is not necessarily a problem if you consider a better vehicle for owning real estate in your 401K which we'll get to.

But remember that you must be very wary of owning real estate in your IRA if you borrow money on that real estate. This makes seller financing and bank financing problematic for a real estate IRA. Which defeats one of the major advantages of real estate investment which is leverage.

Let's look at two more disadvantages of owning real estate in your IRA.

IRAs are often too small to make significant and substantial real estate investments

You and your spouse may have several IRAs, maybe a SEP or two. And each may only have \$20,000 or \$50,000 in it. Together you may own \$300,000 in qualified retirement money, but the funds are separated into small accounts.

There are rules about investing with related parties so it is very hard to invest several IRAs such as your IRA and your spouse's IRA into a single rental property. The law prohibits this in many cases.

So this "size" problem is a huge obstacle with investing in real estate through an IRA.

Third disadvantage of a real estate IRA: the custodian or trustee needs to grant permission

Now, we have studied these issues and we do offer IRAs that can hold real estate. The IRA is set up with a limited liability company and a complexity is that IRAs have a custodian, or trustee, that cannot easily be you. So you have to get permission from a custodian to form an LLC that is owned by your IRA and the whole thing becomes even more complicated.

We hear stories all the time amongst our clients who had a real estate IRA with a company that acted as the custodian. "We need to get permission to write a check," they tell me. "We needed permission from the trustee to do x, y or z."

This can be problematic because real estate decisions especially buying a really good distressed property have to be rapid decisions. And sometimes a flurry of deals and checks are required in a short time to get the cheap and great deal that is out there. How practical is this with a real estate IRA, considering the rules of requiring a trustee that is some other company or firm?



A real estate IRA promises freedom, whether at work or hopefully at play! Photo courtesy of flickr.com/photos/worldizen/

So given these disadvantages, the Financial Success Institute recommends you consult with your tax advisor about a different option than a real estate IRA, which is a real estate 401K. We'll have more about this option very soon.

Meanwhile please do not hesitate to write in a comment or question. Thank you.

How to Buy Cheap Houses That Cash Flow Like Crazy

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written by Richard



One of the folks here has bought about 1200 houses. His name's Mitch and he is a super great guy and real down-to-earth. He prepared this special report as an underground guide for his students and I'm making it available to you (with his permission) for the ultra low price of zero. I hope you enjoy (I know you will). It tells you everything you need to know to start buying ultra cheap houses in your area.

