Market Watch By Larry Grossman

Use Your IRA to Buy Your Dream Home Overseas

U.S. stock markets have rallied recently. If you've recouped some of your losses, now could be a good time to diversify a portion of your IRA funds out of U.S. markets by putting them into a home—maybe a winter retreat—overseas.

You can think of it as an investment...or as an insurance policy. There's no saying what the U.S. markets will do over the next few years and diversifying internationally this way can help limit your U.S. exposure.

The good news is: You can find the property of your dreams anywhere in the world, purchase all or part of it with your retirement assets (gaining the tax advantages that delivers), and eventually take ownership of it—completely legally.

For Use When You Retire

The IRS allows a great deal of flexibility when it comes to investing the assets of your retirement account. As a U.S. citizen, you can use your IRA or other self-directed retirement account to buy international real estate.

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The rules governing the ownership of real estate are simple. You can own virtually any kind of real estate you could name in your IRA or other retirement account, including: raw land, condos, office buildings, single-family homes, multi-family homes, apartments, and improved land.

You can own the real estate fully, you can purchase an option on the real estate, or you can buy outright using a land trust, L.L.C., or similar entity.

All of these options are allowed for the kind of investment I'm describing. You can pay for the property in full using retirement assets or you can finance it. (Though if you do finance, take special care to structure the purchase correctly so that you avoid adverse tax consequences down the road.) The down payment must be paid for by the plan, and all future payments must come from the plan assets, new contributions, and/or income produced by the property.

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You can own virtually any kind of real estate you could name in your IRA, including raw land, condos, and family homes.

Essentially, your retirement plan is meant to benefit you at retirement and not before. So you can invest in any type of real estate you'd like, as long as it is an investment and not for your own use until you retire.

Dream Home as a Distribution

You may not, directly or indirectly, deal with yourself or, as the IRS puts it, a "disqualified person." This means that you cannot lend money, extend credit, or furnish goods, services, or facilities to yourself or to one of these disqualified persons.

For the record, a disqualified person is an owner, direct or indirect, of 50% or greater of:

- The capital interest of a partnership.
- The total value of all shares of stock of a corporation including all classes.
- The combined voting power of all classes eligible to vote.
- A member of the family, with the exception of siblings.

Let's assume you have found your dream retirement home (either in the U.S. or overseas). Someday, when you retire, you would like to own the property personally. You can take possession of the property at that time, in effect taking it as a distribution of your plan.

You would be taxed on the value of the property at that time. Of course, you could sell the property outright at anytime, too. Other requirements include:

- You may not purchase the property from yourself.
- You may not purchase the property from family members, with the exception of siblings.
- Neither you, your business, nor members of your family may lease or live in any investment property owned by your plan.
- Only retirement funds may be used as the down payment or good-faith deposit.
- The title must be in the name of the retirement account.

As a result of a recent tax ruling, some custodians will now allow you to act as your own property manager. You can collect a "reasonable fee" for this service from your retirement plan, and you will receive a 1099 at the end of the year for these fees.

Any income from the property must be returned to the retirement plan as a profit of the plan, less any expenses incurred. The plan assets can be used to pay administrative and record-keeping expenses as well.

Conversely, you can hire an outside property manager to perform this service, provided they do not fall under the "disqualified person" definition.

About the Author

Larry C. Grossman is the managing director of Sovereign International Asset Management, Inc. Larry was one of, if not the first financial advisor in the U.S. to develop a compliant method for assisting clients interested in moving their qualified IRA and pension plans offshore.

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