

## Buy a Business or Commercial Real Estate With Your 401(K) or IRA

Lucky are those who have 401(k) plans provided by their employers. They probably don't realize how lucky they are until they get the golden handshake or are offered a severance package that's too difficult to say no to. If their 401(k) funds were managed intelligently, then departing employees can take their 401(k) and convert it into a self-directed retirement fund to either purchase a business or invest in real estate.

The employee-sponsored 401(k) plan can actually be rolled over into a self-directed 401k or any other type of retirement fund (e.g. ROTH). It is the "self-directed" component of the plan that enables individuals to invest their money either in certain allowable investments or in US-based or foreign real estate.

The IRS has a list of allowable investments that investors should pay heed to. Investors can use their retirement money to buy into a franchise business, for instance, or else invest in thoroughbreds.

Because of intricate tax issues that govern retirement or 401(k) plans, individuals who are seriously considering buying a business with their IRAs should consult not only a competent lawyer or firm with attorneys that have years of experience in the self directed retirement arena, but also a self directed 401k advisor as well.

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### Real Estate: A Clear Favorite

Owing to the impressive ROI generated by real estate investments, IRA advisors are urging their clients whose 401(k) plans are tied to traditional investments like term deposits and mutual funds to convert their plans to self-directed IRAs for an enhanced degree of flexibility in managing their investments. It is unfortunate that a significant number of people nearing retirement age are still unaware of the potential opportunities open to them and their retirement portfolio.

For as long as we take the driver's seat with our funds – only possible when we roll over our 401(k) into self-directed plans – we need not wait until the magic age to begin investing funds into more profitable channels. If an individual's dream has always been to operate a bed and breakfast, for instance, that individual can buy property to serve as an entity without being penalized. Those who think big can also monitor Donald Trump's construction activity overseas and invest in his real estate developments. Word has it that Trump is currently building the Trump Plaza in Panama.

### Self Directed IRA versus a Self Directed 401k

A self directed 401k plan might be more advantageous than a self directed IRA when purchasing real estate if you

- (1) want to put sweat equity into your investment
- (2) earn a salary for managing your property
- (3) loan yourself money as a short term bridge loan
- (3) if you want to use the funds in your retirement plan as the down payment for your investment

(4) or use recourse financing or financing that is in your personal name.

(5) if you want to occupy part of the property and rent out the rest of the space.

A self directed IRA has many more restrictions and than a self directed 401k plan. In a self directed IRA, you cannot put any personal work into your investment property even if you have checkbook writing privileges. In other words, you can't do the landscaping on your investment property or much less pay yourself a salary to do the work even if you could save a buck or two. You cannot extend credit or loan money to your IRA plan.

### Buying a Business with 401(k)

While this is a perfectly legitimate move on the part of retiring individuals, it is important to seek the guidance of an experienced IRA Advisor who knows the legal provisions 100%. There are some instances where there no tax penalties are imposed provided the rules are respected. There's also the age factor. If you withdraw your retirement funds before 59-1/2, you could be subject to tax (which the IRS will consider as taking distributions out). This is why it is essential for your advisor/Advisor to stay on top of IRS rulings which, we all know, have a tendency to change with the seasons.

Buying a business entails risks. You should assess the feasibility of the business using certain parameters: do you have sufficient financial resources to sustain the business on a long term basis? Is the business something you are familiar with? Is it a business that fits in with your temperament and lifestyle? Do you have a marketing plan in place that includes promoting your business, especially online?

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Give us a call today to get started investing with your own Self Directed IRA:  
888-683-5228