



USING IRA TO PURCHASE A HOME CAN BE TRICKY

It's possible to invest retirement –account money in rental property, but doing so can be a tricky and sometimes a risky idea.

DEAR COACH,

My individual account has been losing money because most of the stocks that are in it have been going down in value. Would it be possible to use my individual retirement account to buy a rental house or small apartment building instead?

ANSWER:

Yes, you can invest your IRA money in rental property or even raw land, but it's a tricky and sometimes risky proposition. Many traditional IRA custodians, including most mutual fund companies and banks do not permit their customers to invest their retirement funds in real property. Your first challenge will be to find a custodian who does. Your account might be able to provide a referral, or you can locate one by searching for "self- directed IRA" or "real estate IRA" on the Internet.

Once you purchase the property, the monthly rental income and eventual resale profit will flow back into the IRA. Repair the remodeling and maintenance fees would be paid out of the retirement account. **But beware:** some custodians charge the account a fee each time they cut a check to property-management company or repairman. Those levies will reduce the overall return. Perhaps the biggest disadvantage to holding rental real estate in a retirement account is that, term tax shelter; you won't be able to the hefty annual deductions for interest payments, property taxes or depreciation that you'd otherwise get if the property was instead held outside the account.

Also, if the IRA isn't managed correctly, its tax deferred status could be disqualified but the Internal Revenue Service. That means that you would have to pay tax on its full value as well as penalties if you're under the age of 59. Considering these drawbacks, many financial experts say investors who want to put real estate in there IRA should use their account to buy shares of publicly traded real estate investment trusts that build or buy apartment buildings or the like. REIT shares can be bought and sold as stocks, and their in-house management staff will relieve you of the burden of managing yourself.

DEAR COACH,

What is a bonus room?

ANSWER:

Unlike a kitchen or formal dining room, a "bonus room" is part of a home that has no predesigned use. Some homeowners and renters use their bonus room for an office, a library or a lobby area. Others use it to store precious items, such as family photos and antiques, or convert it to a nursery for a newborn.

