Flipping Property with Your Self-Directed IRA

Flipping property is an increasingly appealing strategy for many investors. Thanks to the economic recovery and accompanying rebound in home prices, flipping is a prime investment opportunity in many markets across the United States.

Here are some key factors to consider when deciding whether home flipping is right for you:

HANDS-OFF HANDLING

- All the investments you make with your self-directed retirement plan must be done at arm's length.
- When it comes to flipping property, this means that you will have to be comfortable with handling your investment at a distance.
- Your role will be to operate as a fund manager – making decisions, negotiating contracts, selecting vendors and conducting the financial transactions.

UNDERSTANDING TAX IMPLICATIONS

- Flipping property is considered to be active engagement in a trade or business.
- When you utilize your IRA or Solo 401(k) for flipping property, your tax-exempt entity is competing with taxpaying businesses.
- The tax known as Unrelated Business Income Tax (UBIT) applies to the gains from such transactions.
- When you are deciding how to invest with your IRA or Solo 401(k) plan, you definitely want to be aware of the potential impact of UBIT and consult with your licensed tax advisor in advance of embarking on this type of investment strategy.

3 HOME FLIPPING METHODS

1. Using Self-Directed IRA to Flip Real Estate

- You have direct control over your self-directed retirement plan's flip transaction, and this can be a very profitable opportunity. Evaluate the after-UBIT net return on investment to see if this is the best option.
- If UBIT is a deal breaker for you, another option may be a better fit.

2. Being the Bank

- With this option, you would use your plan to lend capital to investors and/or contractors who have expertise in flipping properties.
- This strategy shields your profits from UBIT liability and it does not carry quite as much risk or complexity as flipping property with your plan.

3. Hybrid-Flip Approach

- This strategy for investing with your self-directed retirement plan takes a little patience, but can be worth the wait. Rather than buy-fix-sell, you would buy-fix-rent-sell.
- By holding a property as a passive rental for a reasonable period of time (at least one year), you change the nature of the transaction from active to passive.
- Your plan collects rental income plus the gain in value of the property without the bite of UBIT.