

EPISODE 1071**[INTRODUCTION]**

[0:00:01.6] ANNOUNCER: Welcome to The Real Estate Syndication Show. Whether you are a seasoned investor or building a new real estate business, this is the show for you. Whitney Sewell talks to top experts in the business. Our goal is to help you master real estate syndication.

And now your host, Whitney Sewell.

[INTERVIEW]**0:00:28.5**

Whitney Sewell: This is your Daily Real Estate Syndication Show. I'm your host, Whitney Sewell. We are introducing a new segment called The Real Estate Syndication Show Highlights, where we're bringing you a look back at episodes focused on a specific topic that we believe added a lot of value to you in your syndication journey.

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[INTERVIEW 1]**00:00:50.0**

Whitney Sewell: Our guest is Chris Tanner. Thanks for being on the show Chris.

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Chris Tanner: Yeah.Thanks, Whitney. I appreciate you having me on.

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WS: Chris, would you give the listeners a little more about your background and helping people use their self-directed IRAs?

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CT: Yeah, of course. So my background is both personal as well as professional, and so I actually opened up a self-directed IRA account back in 2006. And so, I've been using that obviously for the last dozen years. So, I personally use a self-directed Roth IRA as well as a solo 401K, then a little bit later on, about six years ago, I actually started a business in which we offered solo 401k plans and we just specialized in that, and more recently a joint New Direction Trust Company, but through those companies, that's where I've really worked with a lot of clients, a lot of investors and all kinds of real estate deals, but certainly syndication for department deals and the type of investment opportunities you're giving your folks, and so we've seen the paperwork, we've worked with all different kinds of accounts, so plenty of

experience when it comes to helping facilitate that and making things go smooth for both you and your investors.

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WS: Great, you had mentioned Roth IRA and solo 401k. What are some of the differences? Why would I have one or the other, or what I need to know about one versus the other?

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CT: Yeah, that's a great question Whitney and what I would say is just be aware, your listeners wanna know that they have options, and I could go through a big list of the options, the short of it is, is you can kind of break them down into two categories. And the way I like to think of them is that you can have individual accounts like a traditional IRA or a Roth IRA, where there's a custodian involved, and on the flip side of that, you can have accounts that give a little bit more control to the individual client. So, a couple of examples would be like a checkbook IRA or a solo 401k.

And so the big difference is, is there's pluses, the minuses to both, and one does not fit all, and this is where you wanna contact somebody, a custodian to kinda discuss what's a good fit for you. But here's the short of it, I would say for people that are fairly new and maybe don't have a lot of experience with using retirement funds, are a little bit new to investing in general, I think for those folks having a custodian, at least initially is a good idea and Whitney, the reason I think that that's a good idea is a custodian is actually gonna look at the paperwork and kinda look over the individual shoulders to kinda give them a guide, and I think initially when someone's really new, that's probably a good idea.

Now, obviously, when there's somebody doing that, there's gonna be some more fees involved, and so as long as your listeners know going in that if there's a custodian, there's probably gonna be a few more fees, that's just to be expected, 'cause we have to do a little more work to make sure that everything's going right. We wanna make sure it's titled correctly and things of that nature.

So, for folks maybe like you or people that are a little more seasoned, have a little bit more experience and don't necessarily need the custodian looking over the paperwork and making sure things are titled correctly. I think a checkbook IRA or a Solo 401 offer people a lot more control to really do the transactions themselves and not have as much involvement with a custodian. So I think it is a personal fit, and it kind of depends on someone's comfort level with knowing the prohibited transactions, and just that comfort level being able to manage it themselves versus having someone kinda help and or assist them.

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WS: So, I would really like to focus on the, let say the investor that's looking to invest in a syndication, what's the best advice that we can give to that investor as far as what type of account? Should they use a custodian? Should they not? Based on experience, how do we help them to better understand how to move forward to be able to invest in a syndication?

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CT: Yeah. There's really some really basic and simple questions, if they are wanting to use retirement funds, let's number one, make sure that they can actually use retirement funds. So something that's really common that comes up is they may think they have retirement funds available and they actually don't and so that would be the first conversation that if I were you, that I would be having is just tell me a little bit about the type of retirement fund.

So in general, IRAs are available, they can self-direct those where we begin to run into some issues if somebody has a 401k or a 403b, especially if they have a current employer, a lot of times current employers are not gonna allow them to use those funds. So that'd be kind of a screening question, and then once we end to figure out, yep, we can use those funds, then we gotta look at timelines and how fast obviously that custodian can work. And then I would take into account their experience. And so I would say in general, if they're pretty new and you'll have a feel for that, I would say, let's look for a custodian that kinda helps you out and look over the document. I'm sure you have both. You have people that are seasoned investors, they've invested with you before, and I would tend to say, Hey, you might wanna look into one of these checkbook options.

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WS: So a checkbook option, and I guess versus having a custodian is a big decision they gotta make, right?

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CT: Absolutely. The big thing is, is when they have direct control, like a checkbook control, whether it's through an IRA or a 401k, there's really no oversight from the custodian, and that's okay, as long as they're comfortable with the prohibited transaction rules and they're comfortable with the correct titling and I think we alluded to that before. Obviously we're making the investment in the name of the retirement plan, and we gotta make sure we're using the correct EIN number. And those are real basic, simple, straightforward things, but those are some of the common mistakes that we actually see when it comes to those kinds of plans.

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WS: So I guess when we ask about or investing in what we're using an entity or that type of thing, it would be the name of their IRA, would that be the entity they're investing through?

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CT: That's exactly right. So if they have a custodian, for example, work called New Direction Trust, the title would look like New Direction Trust Company for the benefit of Whitney Sewell IRA. And so, that's how we were titled that, and then they could either establish their own EIN number or we have an EIN number at new direction that we give for our clients to use, 'cause you obviously need that for tax reporting purposes. If they're using a checkbook, IRA people get confused because in that instance, they're really operating that IRA through an LLC, and so we wanna make sure that the entity, the LLC is on title, and it's not the IRA, and so nor is it the

individual's name, and then there should have been obviously, an EIN number that was attached to that LLC. And the same thing with a 401k. The 401 will have a specific name for that entity, as the IRS recognizes that we just wanna make sure I use a specific entity.

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WS: Of course. So as far as the prohibited transactions, could you give us some common things where people mess up as far as the prohibited transactions that we should be aware of.

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CT: You bet, let's talk about it now in form of the syndication specifically, and so where we can I see some issues here, some of the prohibited individuals are people that are really directly related. I mean, just give you an example, let's say, and I don't know, but do you ever serve as the general partner?

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WS: Yes.

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CT: On some of your syndication?

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WS: Of course.

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CT: Because you're the general partner, you actually would not be able to use your own retirement funds, and the reason why is you have controlling interest in that syndication, it is probably a partnership. And so that's one of the things we look for is that we don't want too much concentration of retirement funds from one person in a business, so there's a 50% rule, which means you couldn't have one investor with retirement funds own more than 50% of the business that would disqualify him. And you wouldn't also because you're the general partner, like your mom, for instance, unfortunately couldn't use retirement funds because Whitney is the general partner and because you have that controlling interest, that would disqualify them.

So a lot of times it's tied to who's controlling the business, who's that general partner, and what percentage of that business they own, it's perfectly fine if we're below 50% that they can be involved, and a lot of times I think they would be probably talking about pretty big money to be more than 50% on or some of these deal. So there's probably not something we run into very frequently.

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WS: I'm glad you clarified that and I wanted to just say it again, so if I have 49% or less of the ownership, my mom or my spouse could even invest in that deal, were using their SD IRA.

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CT: They could. That's exactly right. If those prohibited individuals collectively, like we had a lot of family members in there that were disqualified if they own more than 50%, that's where we can begin to run into some issues. What they would not be able to take part in that transaction.

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WS: Would that be frowned upon anyway, even if it was, say, it was only 10% of the day or even less, with that raise a red flag to the IRS or make you be looked at sooner or more than someone else?

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CT: No, I don't think so. I mean, if you're following the guidelines, you're following the guidelines, and that is one of the places where it's nice to have a custodian because we'll look at that, ask those kinds of questions as that deals being put together, and so we kinda wanna know who's related to who. And get a feel for a percent ownership, and to be really honest with you, Whitney, because of the dollar amounts and a lot of these syndication, it's pretty rare that one person brings in that big of a piece of money.

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WS: Yeah, it would be very rare. So what are some other maybe mistakes you see people make or somebody's come to you and say, Oh, Chris, got this going on, I really need your help.

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CT: Probably the biggest mistake we see is they don't allow enough time, and so for the syndication in particular, or do you almost always have a funding deadline, and we see people drag their feet, and the challenge is that people need to be aware of is if you don't already have a self-directed retirement plan, and that's where you plan for your funds to be coming from, you gotta account for, I'd say a good two to three weeks for that all to happen because you gotta set up the account. We gotta move money from probably another account, move it over and then actually fund the deal. And so I would say leave yourself enough time. That's by far in a way the biggest thing I've seen is, I would say, give yourself at least a three-week window to go from start to finish, maybe even a month. We recently had a situation where we had a gal that left herself one week, and so we scrambled and did the best we could, but there's a lot of moving parts there, and there's some things that are gonna be out of our control, so for example, we can't control how fast money comes from the other custodian to us. We can move it fast once we get it, but we just wanna make sure that we allow enough time 'cause we don't wanna make anybody angry 'cause you've got a funding deadline, they've committed money. And now the money is not there. It creates issues, so I would let you folks know, allow for some time, especially if they're gonna be retirement funds and they're not already established.

[INTERVIEW 2]

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WS: Our guest is Scott Maurer. Thanks for being on the show today.

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Scott Maurer: Hey Whitney, thanks for having me on. I appreciate it.

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WS: So what's the benefits of using your IRA to invest in real estate?

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SM: The benefit, if it's your IRA, can hopefully you've chosen to real estate, is the investment in your IRA for probably one of a few different factors, one might be the tax advantages that the gains that you make on the investment held inside your IRA is not subject to 20 kind of tax over IRA, you're waterway into a piece of real estate, all of the returns come back into your account with no tracks and of spends, whatever.

So for some people, that's a tax decision, that's really not usually why people invest in self-directed IRAs. The biggest reason probably, again, there's probably the two reasons they go hand-in hand, one is a distrust of the stock market, people who want more control over their money, and that a lot of people do that on a personal basis, this extends to their IRA account. And again, same mode for a lot of people who use their IRA to invest in real estate, it's simply the IRA provides them with another bag of money to use.

Again, most people have their IRA, they built up an old 401k to an employer, you have that money, you sitting there, you don't wanna put in stocks, buy mutual funds, you're looking for another alternatives, and people don't even realize the real estate's possible. And once they become aware that it is, and simply in other ways, that you can grab funding for your next deal. And so the benefits are -- you're getting the money out of the stock market under your control, and at the same time, there are some tax benefits that goes along with it.

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WS:What's a good way for me to meet individuals who are looking to invest IRA into real estate, or maybe just individuals that don't even know that they can, but they're looking to do something else with their IRA?

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SM: One of the biggest places we meet potential clients and obviously, real estate investors is that local networking groups, real estate investor associations that are across the United States, they're being in our areas in Atlanta, but they are obviously beyond that, that's a good place to meet people who are investing in real estate.

But to go back to your first part of your question, how can you meet people like the IRAs, interested in real estate, that's to me, that's something when you're talking with a potential investor. If you're looking to submit your next deal, you're looking at investing a piece of property, you're looking for other people's money, just knowing that your IRA or their IRA, letting them know, hey, If you're looking to fund my deal, if you like what I'm talking about, I've shown you the numbers on my deal, I've shown you a project I'm doing, if that looks good to you, what

different ways could you fund that project with me? Obviously, someone might have their savings account, other money they put away, or simply their IRA on the old 401s available. Okay, 'cause they are not gonna necessarily even think that that's an option, some people will do is some people ask you about it, but you have enough knowledge in a neutral box to open up as many different avenues of capital as possible. And the IRA is probably the one that is missed the most, because again, most people aren't even familiar, this is possible, the latest statistics are still less than 5% of all retirement accounts in the United States are self-directed.

So you're talking about IRAs alone, almost an eight trillion dollars in IRAS when you factor in other 401ks, you're up to 24 plus trillion dollars in retirement accounts that people can use, but they don't even know. Less than 5% are doing it. So you think it was only 10%? maybe they even know it's possible.

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WS: Tell me how to educate someone like that, so I've just showed them a deal and I've said, Well, you can use your IRA to invest, and what are some ways that I can educate them? To help them understand that that's a good option.

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SM: It comes from the individual knowing a little bit more, obviously about self-directed IRAs themselves, but I also tell people you don't have to do the full education with them. I'm more than happy to help people. Obviously, it's basically telling someone, if you have money in an IRA, you have money on 401K, I can help you use that money to invest in my project, it's a tax-free movement of money, you're not gonna pay any taxes at all on moving the money from where it's at using it in my deal, and then the benefits are whatever we make in a particular investment, that's all I'm gonna come back to your IRA again, tax for your tax defer, depending on the type of IRA.

So it's explaining to them, it's another bag of money that they can use, no tax consequence whatsoever to investing. And again, even depending on who you're talking about, if you're talking to people who are in higher tax brackets who are tax at first that they're looking to anything they can not to have any more tax complications in their life, the IRA goes on a way to make that investment with boring at all, what the tax considerations are gonna be so again, you don't have to know a lot in any type of IRA, traditional or other set IRA, anyone's old 401K plan or old 4003 ban type of employers plan can be used that's doing a transfer rollover to self-directed IRA and from there, making the investment that's a process that our company helps walk not only the investor through, but also the person who's maybe introducing the investor to self-direct and giving you as many resources, documents possible. But help you and your client feel most comfortable with using an investment in. You don't have to know much other than to tell them this is another option, your stock broker, your financial advisor is not gonna maybe tell you about it or suggest it, but it is an option and give us some resources, so I'm kinda answering their own questions.

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WS: What are some common questions that maybe I should be prepared for, so I wanna see him as educated as I can and be able to explain those things to them, maybe before I send them to you or someone like you. What are some common questions I should be prepared to answer?

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WS: I think one of the common questions people will ask is, again, sometimes to do with the tax consequence, 'cause most people think that if my IRA is invested in mutual funds or stocks and I'm gonna now move that money to invest in real estate, that they have to pull them in a of the IRA account, which is gonna be trigger attacks, all that. So one of the biggest questions you are gonna get is, "well, I might be interested in using my IRA, but there's gonna be tax consequences to doing so." And then your answer of course you say "No, there's not." Trust me, I don't want to know all the mechanisms of how it works, but I know that there is no tax consequence for doing so. That certainly is one question, another question you might get from time to time is, I've had people ask, "is it illegal? Is it even possible to do that?" And that comes from the fact that most people have their IRAS with the financial broker, financial advisor who's never introduced this concept to them in the past, because most advisors, most brokers get paid when you buy mutual funds and stocks, so it's not in their business interest to offer all of these different alternative assets to their clients who are not gonna make any money when you pull the money away.

So again, the common questions are, "is it illegal? Are there tax consequences? Is it a good idea?" That it ultimately is gonna be up to the client and again, people who go to their financial advisors to ask them, "Hey, I'm thinking about investing in my friend's real estate deal. I've been told I can use my IRA to do this. Hemight get some misinformation." That's something to be prepared for, not only you promoting the use of the IRA account. Your investor's gonna come back to you and say, "Hey, I talked to my advisor and he said You can't do this, or it's not a good idea." And again, from that standpoint, it's understanding that that broker is looking at for their own best interest and maybe not the client's best interest.

So knowing that it's possible, there's no tax consequence in doing it and ultimately, knowing that it's up to your investor to decide, is this something they want to do. We don't advance IRA, we don't do any due diligence, we're not gonna evaluate the investment, so the client just decides they wanna do it, they make the investment. Our job is to make sure everything gets properly titled and probably handled so there are no tax consequences.

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WS: So maybe we should encourage them to consult with many different people and not just their specific broker?

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SM: Again, if you go in to your broker, depending on how they get paid, again, they may not be as true with you as they should. Another good person to go to would be your tax advisor though, generally speaking, someone's CPA rolled agent, they're going to revising their taxes, they see

you don't have a dog in this fight. They are just doing your taxes, trying to get you the best information. SO going to your CPA and talk to them about a self-directed IRA. Most of them probably have at least have heard of it, some of them are gonna be more familiar with it than others. But going to that type of advisor and he's gonna tell you, or he or she's gonna tell you, "Yes, you can do it, there's no tax consequence for doing it, it's ultimately your decision." It's not probably going to matter to most tax advisors what you need to decide to do it or not, so you're gonna get more of an unbiased look and feedback from that type of individual.

[END OF INTERVIEW]

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Whitney Sewell: We hope that you enjoyed the Highlights show today. You can always listen to the full episodes that were featured today by clicking the links in the show notes page. And in the description box, let us know what you've thought of this episode or you can go to lifebridgecapital.com/podcast and click the feedback button. Let us know how we can add value to you. Thank you and talk to you tomorrow.

[OUTRO]

0:19:51.0 ANNOUNCER: Thank you for listening to the Real Estate Syndication Show, brought to you by Life Bridge Capital. Life Bridge Capital works with investors nationwide to invest in real estate while also donating 50% of its profits to assist parents who are committing to adoption. Life Bridge Capital, making a difference one investor and one child at a time. Connect online at www.LifeBridgeCapital.com for free material and videos to further your success.

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