Using Retirement Assets to Purchase a B&B/Inn?

Few investors/entrepreneurs realize that they have the ability to self-direct their own retirement assets. Most believe the only two options are to borrow or withdraw from their account/s if they wish to invest in real estate or purchase/start up a new business. The down sides are…

1. Borrowing from the account/s would requires repayment of the principal with interest
2. Early withdraws would be subject to taxes and penalties

There is another way… The Employee Retirement Income Security Act (ERISA), which created the IRA in 1974, places surprisingly few restrictions on how retirement money can be invested. Except for life insurance or collectibles—such as artwork or coins—IRA funds can be placed in just about anything. Tens of thousands of investors have switched their retirement savings to self-directed accounts since the stock market correction of 2000 and 2001. By some estimates, 3% of the $3.5 trillion held in IRAs is now in alternative investments—and the number is growing.

Here is how it works… A Retirement Account Facilitator can create the legal entity and structure that allows for checkbook control of your funds. A new C corporation will be formed which in turn sponsors a Qualified Retirement Plan. The new plan will receive a roll-over of all or part of your existing /previous 401(k) and or IRA Qualified assets. The new corporation will own the real estate, good will, FF&E and other assets of the business. The plan invests in the business by purchasing stock in the corporation, providing the necessary capital to fund the down payment, closing costs, reserves and working capital. The new qualified retirement plan purchases the stock of the C Corporation you control, similar to what your IRA/401(k) does currently, that allows you to purchase shares in a publicly traded company.

Here are the benefits…

- You do not re-pay a loan, which adds to overhead and you will not incur tax liabilities and penalties
- Profits, can be sheltered by either:
    - Making contributions to the plan which grow tax deferred
    - Paying dividend to shareholders at the end of the year
    - Ultimately, any gain from the sale of the business/property will flow into your retirement account proportionate to the stock it owns in the corporation.

When the cash requirement of an acquisition/start-up exceeds the available account balance, multiple investors may invest in a single project through the same self-directed 401(k) plan; this feature may be very useful/attractive to family members or outside investors who wish to provide financial assistance or take advantage of an investment opportunity.

No outsider can guarantee the soundness of your investment strategy. Seeking advice talking from a trusted financial advisor would be prudent. Unless you have both time and capital to spare, you should be cautious before putting your entire nest egg into a new business; however, investors with a strong do-it-yourself streak and a compelling alternative investment strategy may want to consider joining the growing ranks of people who have decided to invest their retirement funds in themselves.

Note: The material contained in this overview is provided for your general information and should not be acted upon without prior professional consultation with the appropriate experts.

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