

# Using 401(k) or IRA to Pay for Capital Improvements

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Few innkeepers realize that they have the ability to use retirement assets to pay for improvements to their property. Most innkeepers believe that there are only two options available to them if they want or need to access capital from their 401(k) or IRA. Borrowing from a retirement account, while still employed with the employer who established your 401(k), may solve a short term objective but it will require a return of the principal with interest. Early withdrawals on the other hand, are subject to pre-distribution taxes and penalties.

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—retirement 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.

**THE GOOD NEWS:** A Self Directed 401(k) can be structured to conform to IRS Regulations, these regulations must be followed to the letter and ALL requirements must be satisfied to have a plan that is fully compliant. Here are the four of the basic elements to the plan:

- Step One:** A fundamental requirement to this program is that a C Corporation must hold title to the real estate asset. Therefore, if title is held in any other manner, the title can be transferred into a newly formed C Corporation.
- Step Two:** The new C Corporation sponsors a new Self Directed 401(k)
- Step Three:** Retirement funds from existing IRA/401(k)s are rolled into the newly formed 401(k)
- Step Four:** The new 401(k) purchases stock in the new C Corporation giving the Corporation the cash it needs to improve or expand the inn. *The new retirement account may purchase as much as 95% of the stock, providing the necessary capital for improvements; the new retirement account actually purchases the stock of a company you control, much as if your IRA or 401(k) were to purchase shares in a publicly traded company.*

In a nutshell, the new self directed retirement account purchases the stock a company you control, much as if your IRA/401(k) were to purchase shares in a publicly traded company. You avoid penalties and taxes on early withdrawals and eliminate the need to pay back principal and interest which ultimately increases the total debt that must be serviced. Why borrow the funds when you can invest in your retirement funds in an asset you control?

**To arrange for a review of your plan options please call... 1-570-595-2120**