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| |  |  | | --- | --- | |  |  | | Top of Form  Bottom of Form | *by* [*Colleen Mulder-Seward*](http://legacy.betterinvesting.org/articles/archives/author/574)  Q. Our club members have expressed an interest in REITs (real estate investment trusts). Am I in error in discouraging investment in them? If so, what should the reasons be?  A. REITs can be attractive investments. A main benefit is their above-average yields; in early April the average yield generated by components of the NAREIT Composite REIT index, published by the National Association of Real Estate Investment Trusts, was about 4.7 percent. That's compared with an average of about 1.7 percent for members of the S&P 500 index.  But REITs aren't well-suited for investment clubs. The biggest reason for clubs not to invest in REITs is to keep their treasurers around. Of all the club jobs, treasurer is the most difficult one to keep filled. It's important to make the treasurer's job as easy as possible, but handling the accounting of REITs within an investment club is anything but easy.  Each dividend payment received from a REIT must be divided into different categories. These categories include: dividend, capital gain distribution and return of capital. But this division isn't known until the end of the year. So the treasurer will have to go back through the entries for the year and make all necessary changes.  Next, the treasurer will have to separate qualified dividends from nonqualified ones. Take a deep breath -- there's more. The treasurer then determines how much of the capital gain distribution is an Unrecaptured Section 1250 gain. These are found on Form 1099-DIV from the REIT.  The IRS offers an [Unrecaptured Section 1250 Gain Worksheet.](http://www.irs.gov/instructions/i1040sd/ch02.html#d0e1242). The worksheet isn't easy to complete. But once it is, the figures obtained from it can be added to the club's tax return.  Normally, that would be the end of the accounting nightmare. But sometimes a REIT makes a January distribution that's taxable in December. This adds another level of complexity to the accounting.  Also, brokerage accounts are notorious for issuing corrected Form 1099-DIVs when they contain REITs. Thus, just when REIT-afflicted treasurers think they're done with the tax forms, they may not be.  If your members are really interested in REITs, dedicate the education portion of one of your meetings to studying them. Then, if still interested, members can invest in REITs in their personal portfolios. The accounting nightmares that clubs face aren't present for individual accounts. A complete list of publicly traded REITs can be found at www.investinreits. com/waystoinvest/publicreits.cfm. | | Top of Form  Bottom of Form |

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