IRA LLCs Explained: Pros, Cons, and Essential Rules

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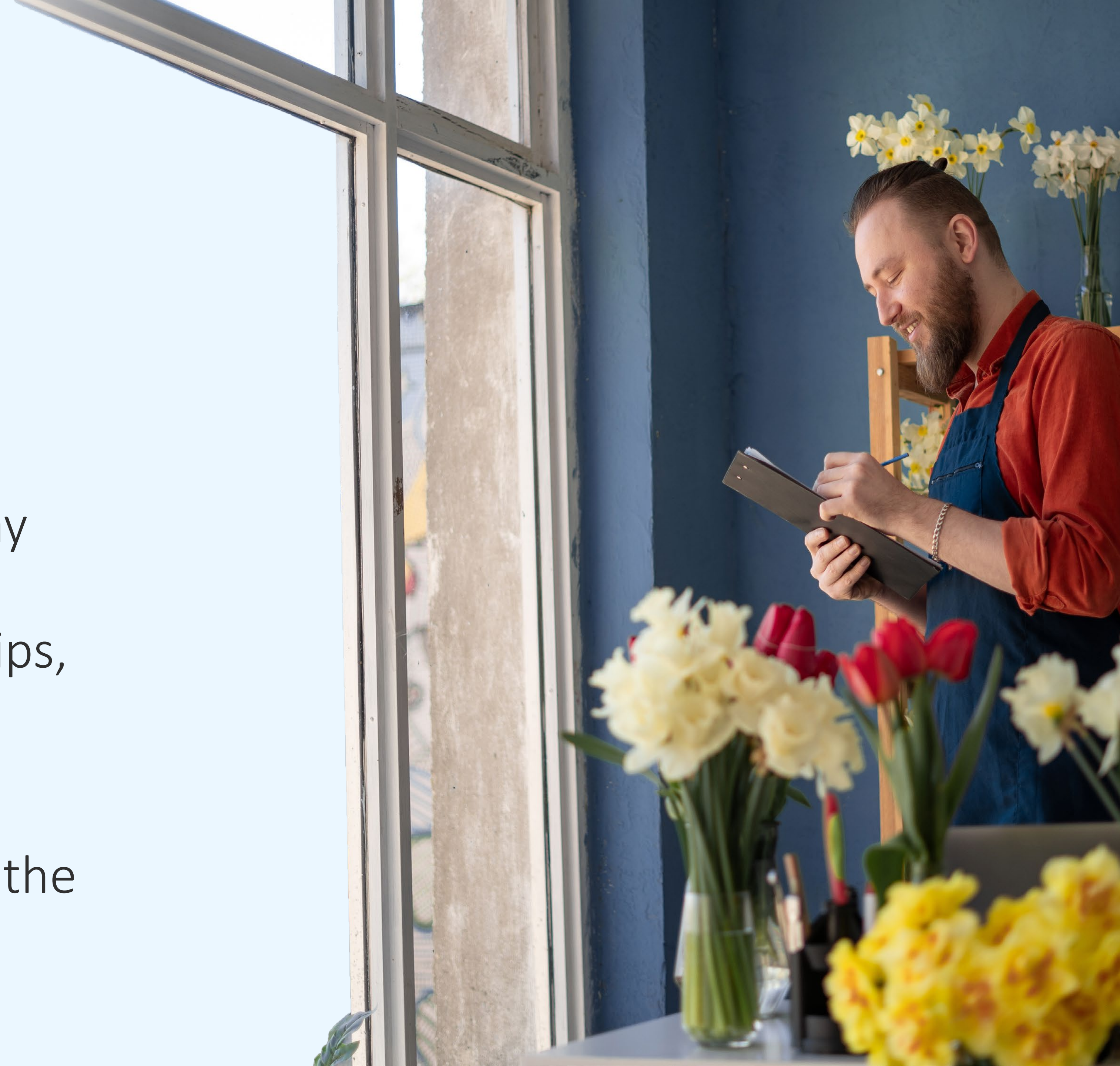
Today's Agenda

- How IRA LLCs Work
- The Benefits of an IRA-LLC
- Setting one up the right way
- Key tax rules, compliance tips, and what to watch out for
- Actionable tips to navigate the investment process



Meet Your Host

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8 Years at Entrust

Educates investors and professionals on tax-preferred retirement accounts and alternative investments

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- Self-Directed IRA Administrators
- Knowledgeable Staff with CISP Certifications
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About Entrust

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1
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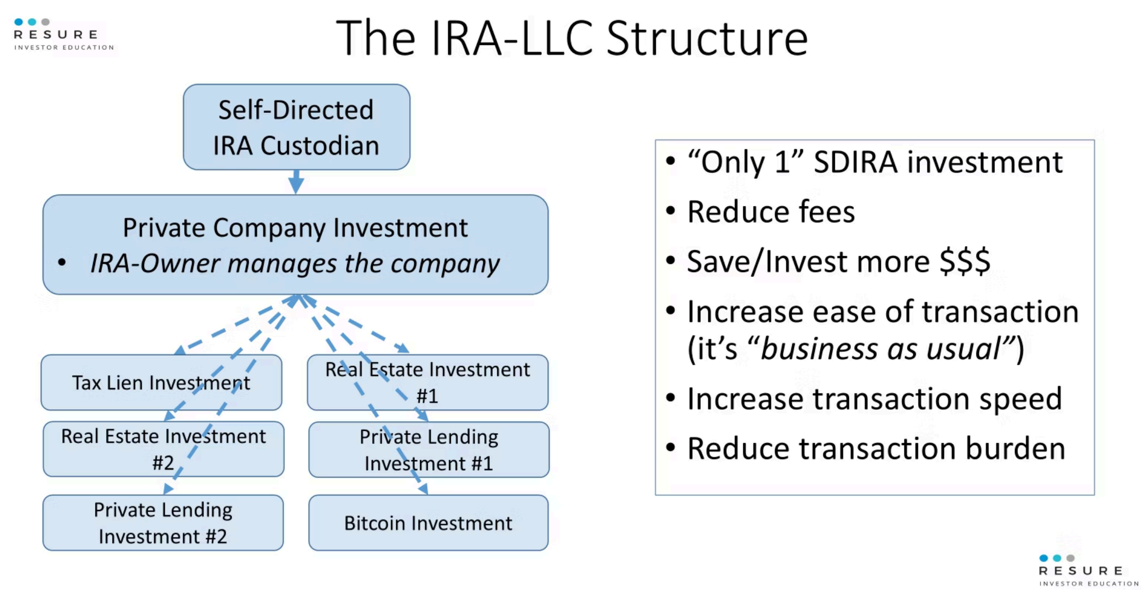
IRA-LLCs Explained: Pros, Cons, and Essential Rules

How IRA-LLCs work

Checkbook-control IRA retirement accounts are an SDIRA innovation that enables you to directly control your retirement funds using a bank checking account.

1. In the Checkbook IRA-LLC structure, the SDIRA acquires ownership of an LLC through which it does all its investments.
2. Your SDIRA funds are transferred from the SDIRA custodian to the LLC business bank account.
3. Once the LLC bank account is funded by the SDIRA custodian, investing is conveniently and seamlessly done via the LLC checking account.
    - All SDIRA investment transactions are **executed in the name of the LLC**, which is owned by the SDIRA.
    - The **LLC manager** executes transactions for the IRA-owned LLC.
4. When an investment opportunity arises, a check, wire, or ACH from the bank account is all that's required to fund the deal. There's no need to present deal documents to the SDIRA custodian for processing and counter-signature!
5. This access to your tax-sheltered investable funds enables you to pursue a variety of investment strategies with extraordinary efficiency.



The Benefits of an IRA-LLC

IRA-Owned legal entities and structures can significantly enhance your SDIRA investing outcomes by:

1. Improving asset protection and privacy
2. Giving you even greater control and access to your investable funds
3. Reducing frictional SDIRA costs,
4. Eliminating custodian transaction processing paperwork, and
5. Enabling you to invest in alternative asset-classes that can't be effectively accessed through an SDIRA custodian, but are allowable for IRAs by the IRS. Some examples are tax-lien & deed auctions, REO auctions, cryptocurrencies & alt-coins, foreign assets.

Just as you may personally own a limited liability company (an "LLC") through which to manage and hold investments, your SDIRA may do the same. **In fact, an SDIRA should use an LLC to hold alternative assets for all the same reasons you would use an LLC when investing with personal funds outside of an IRA - in addition to all the reasons to do so that are specific to IRAs.**

Asset Protection: The most obvious reason for using an LLC is to limit and segregate liabilities, as state laws provide powerful legal protections through LLCs.

Privacy and Anonymity: The use of an LLC can provide privacy by keeping your personal name from being associated with assets.

These LLC features provide protection for your personal and IRA assets in the event of a liability event that takes place either inside or outside of your SDIRA.

To illustrate, suppose you use a portion of your SDIRA funds to purchase multiple real estate rental properties. In the event that a tenant or visitor was to sue the landlord, your SDIRA, they could potentially pursue all IRA assets – and possibly your personal assets as well. Savvy real estate investors understand these investment risks and use LLCs to limit liability. Your IRA should certainly do the same.

It is noteworthy that an LLC within an IRA may also protect your SDIRA assets from liability that's generated by your personal actions or investments.

Setting one up the right way

1. Determining where to domicile the LLC, taking into account both initial and ongoing (a) cost, (b) filing requirements, (c) privacy, (b) asset protection, all considering your near-term and long-term investing plans.

    - In some instances, you can pick and choose your LLC state, and in others, the nature of your investment may dictate where the LLC should be registered.
    - It's of the utmost importance that you work with a service provider that is well-versed with the requirements of all 51 – 50 states plus Washington, D.C. – LLC domiciles.
    - Exercise extra caution with firms or individuals that either promote or focus on forming LLCs in a specific state, rather than working with all 51 LLC jurisdictions. A "one-size-fits-all" approach will have multiple hidden pitfalls and costs.

2. Select an appropriate name for the LLC
3. Properly establish a conforming LLC
4. Compliant operating agreement
5. Correctly obtain an EIN
6. Establish a compliant bank account
7. Arrange for transfer of funds from the SDIRA to the LLC
8. Start investing using the control and freedom of the IRA-LLC checking account

Key tax rules, compliance tips, and what to watch out for

An IRA-owned LLC empowers you by providing greater control and access to your SDIRA funds. This also means that you must have a greater awareness of the IRS rules that apply to IRAs. When it comes to IRA-owned LLCs, there are numerous compliance pitfalls – "unknown unknowns" – that can be encountered at every step of the setup or investing process.

- Consider the cost of annual LLC maintenance, which varies from state to state. While for most states these costs are nominal, a handful of states have more substantial annual LLC maintenance costs.
- Even with an IRA-LLC structure, rollovers, transfers, and contributions must flow through the IRA account, not the LLC checking account. IRA rollovers, transfers, and contributions *may NOT be made directly to the LLC checking account* and must always flow through the IRA custodian.
- **The Prohibited Transaction rules that apply to SDIRAs apply to the IRA-LLC.**
- **You, the IRA account holder (and LLC manager) should not take any form of compensation from your IRA-LLC retirement account.**
- **Do not take physical possession of "untitled" assets.**
- **No credit cards for your retirement or retirement account-owned LLC!**
- **Exercise extreme caution with debit cards.**

Actionable tips to navigate the investment process

- Always bear in mind, the different roles being played and who is filling each role: Manager, Member, Owner, etc.
- Title and all paperwork are done in the name of the investing entity, the LLC.
- Be sure to note the correct authority and capacity of the individual signing documents (Manager).
- **Financing must be non-recourse to the account-holder.**
- **Partnering and pooling funds is often best facilitated through a multi-member IRA-LLC. However, caution is advised and a thorough analysis of every situation is needed.**

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