

**STREAMLINE YOUR INVESTMENT STRATEGY**  
**with an IRA LLC**





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**One popular strategy for investing with a self-directed IRA (SDIRA) is investing through an LLC.** While you can invest in almost any alternative asset directly with an SDIRA, many investors find that the LLC structure is a useful tool for their investment strategy. Our goal is to help you understand the ins and outs of using an LLC owned by your SDIRA in order to determine if this structure might be right for you.

# Investing with an SDIRA through an LLC

When considering investing through an LLC, one word makes all the difference.

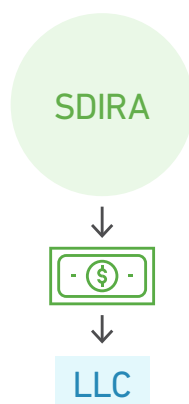
Some investors invest in an LLC with their SDIRA. This means that they invest the funds in their SDIRA in a business that is structured as an LLC. An example of this might be investing in a local business that is structured as an LLC.

Investing with an SDIRA through an LLC is a very different scenario. When an investor invests through an LLC, they create an LLC which is owned by the SDIRA. The LLC then invests in alternative assets.

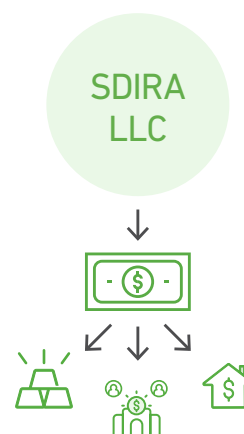
You might have heard of these structures referred to as “IRA LLCs” or even “Checkbook Control LLCs.” In reality, both of these are simply names for an SDIRA that invests through an LLC.

People are often most familiar with investing with an SDIRA through an LLC for real estate, but this structure can work for any type of asset such as cryptocurrency, private equity, etc.

## INVESTING IN AN LLC WITH AN SDIRA



## INVESTING WITH AN SDIRA THROUGH AN LLC



ALTERNATIVE ASSETS





## Definition of an LLC

A **Limited Liability Company (LLC)** is a US legal structure that combines the pass-through taxation of a partnership or sole proprietorship with the liability protection that comes with incorporation.

The hybrid structure of an LLC is more flexible than a corporation and there is much less recordkeeping and administration. LLCs are also subject to fewer regulations, and in some cases, they are allowed to choose how they are taxed.

LLCs are also important for their limited liability, which shields the owner from being personally liable for the company's debts and obligations. In order to preserve the limited liability protection of an LLC, however, it is imperative that the LLC is set up properly and that the LLC and its members do not commingle funds.



# Benefits of investing through an LLC



## Faster transactions with checkbook control

One of the greatest benefits of the LLC structure for alternative asset investors is the option to speed up the transaction process. Typically, executing transactions through your SDIRA requires filing paperwork or communicating electronically with your IRA custodian to purchase assets or pay expenses. Without the LLC, you, as the investor, must wait for those requests to be processed, and in the fast-moving world of investing, delays can be costly.

When your SDIRA invests through an LLC, the LLC has its own checking account. If the LLC is set up with you as the managing member, you will manage the business checking account. Once you move the funds from your SDIRA to the LLC's checking account, these funds can be used to buy assets and pay asset expenses immediately without involving your custodian. The ability to write checks directly from the LLC's checking account is called "checkbook control" and is a simplified way to manage your assets.

Keep in mind that checkbook control is subject to the same rules that apply to your SDIRA and the LLC. You cannot commingle funds, and you cannot move funds between your personal account and the LLC's account or write checks from the LLC account for personal reasons.



## Potential to reduce fees

The LLC structure is also popular because of its potential to save you money on transaction and recordkeeping fees. Because with an LLC you have the option to use checkbook control, you will no longer have to request checks and be subject to the transaction fees incurred for processing checks and payments. You may also find that your recordkeeping fees are reduced. Some custodians charge a per asset fee. Even though the LLC can invest in multiple assets, because the LLC is owned by the SDIRA, this is considered one asset in the eyes of most custodians and can be a smart way to reduce your yearly investment costs.





### Protecting your assets with limited liability

Another benefit of the LLC structure is the possibility for limited liability protection. When your SDIRA invests through an LLC, the LLC provides limited liability protection for the asset. This means that in the event of a lawsuit, only the value of the investments in the LLC are exposed rather than all of your assets. Consult with your legal advisor to determine if you would benefit from the liability protection of an LLC.



### Partnering funds for greater potential

LLCs can also be a wonderful way to partner your funds with other investors if you create a multi-member LLC. Multi-member LLCs allow for multiple investors to pool their funds and invest together. The LLC structure makes this possible because the LLC lays out an operating agreement that clearly dictates the way the LLC functions and the percentages of ownership of each investor. Partnered funds must be treated proportionally to the amount that each member invested at the time of investing. When paying expenses and when the asset is distributed, the LLC operating agreement outlines how ownership is distributed, how the partnership will function, and what should happen in the event that one member decides to leave.



### A way to streamline real estate asset expenses

LLCs tend to be popular among real estate investors because they can make managing multiple properties easier. But an LLC is not the only option for streamlining your property management process. With the myDirection Card, a debit card available exclusively for Entrust clients, your SDIRA can pay your investment's expenses quickly and simply without waiting for us to process your checks.





## Investment options with an LLC



LLCs are allowed to invest in any alternative investment allowed by the IRS. **Alternative investment options** are practically endless. While LLCs are often used for real estate, they can also be used to invest in everything from startups to precious metals, private equity, and even cryptocurrency.

The only restricted investments per the IRS rules are collectibles, life insurance, and S Corporations.



Need investment ideas? Download our guide to **90 Things You Can Invest in with a Self-Directed IRA**

# Things to consider when investing through an LLC



## Establishment Process

While Entrust allows SDIRAs to invest through an LLC, we do not establish LLCs. Given that an SDIRA investing through an LLC requires that the LLC be set up with the proper structure and language, you will need to use a qualified lawyer. We are happy to provide a [list of contacts](#) that our clients have worked with in the past.



## The Cost of an LLC

Setting up an LLC has several associated costs depending on the state where you establish the LLC. Depending on the complexity of your situation and the type of LLC you need, it is often advisable to consult with a lawyer who is well-versed in creating LLCs for SDIRAs in order to make sure that your LLC is set up properly. Some states, such as California, impose an annual tax for LLCs even if the LLC does not take in any income during the year.



## Responsibility and Due Diligence

Just like with any investment in an SDIRA, you, as the investor, are responsible for doing all the due diligence related to your investments. This not only means carefully vetting investment opportunities, but it also includes taking responsibility to make sure that your accounts are managed according to the rules and regulations set forth by the IRS. LLCs, while useful for some investment strategies, can be more complicated than a simple SDIRA because there are more moving parts. If your SDIRA or LLC are not set up properly, violate an IRS rule, or engage in prohibited transactions, you are at risk of losing your tax-advantaged status.





### Filing Taxes

Investing with an SDIRA through an LLC preserves the tax-advantaged status of your SDIRA. This structure doesn't provide any additional tax advantages, but there are tax rules to keep in mind. Because an LLC is a pass-through or flow-through entity for taxation, the income passes through the LLC to the SDIRA. Since an SDIRA is a tax-deferred entity, there is no taxable event when the SDIRA purchases or sells an investment through a single-member LLC.

If, however, you have a multi-member LLC, you may need to file a partnership return each year. It is important to consult with your tax advisor to determine if you need to file a partnership return.



### UBIT/UDFI

Some investments in an LLC may trigger unrelated business income tax (UBIT) or unrelated debt financed income (UDFI). UBIT is a tax that can be levied if income from a business is carried on regularly and is not substantially related to the purpose of a retirement account. UDFI can result in taxes on investment income if the investment is leveraged with debt.

There are several special circumstances that can result in UBIT, but it is most often triggered when an SDIRA generates ordinary income from a business. This, however, does not apply to passive income generated from the investment such as rent or interest and dividend income.

UDFI can be triggered when your SDIRA's investment is leveraged with debt, such as if a real estate property is financed with a non-recourse loan.

In the event that UBIT or UDFI applies, as the owner of the LLC, your SDIRA may need to file a tax return. If you'd like to know more about UBIT, you can read more in depth on our UBIT and UDFI page.



### Accounting

The LLC manager(s) and or advisors are responsible to deal with the accounting for the LLC. You cannot pay yourself or any other member a salary to manage the LLC. And as with any SDIRA, you cannot commingle your personal funds with your SDIRA. Doing so will potentially jeopardize the tax-advantaged status of your investment(s).

# Rules for investing through an LLC



The rules for investing with your SDIRA through an LLC are the same as the rules for investing with an SDIRA. In order to preserve the tax-advantaged status of your SDIRA, it is imperative that you avoid prohibited transactions and dealings with disqualified persons.

Disqualified persons include the SDIRA owner, the account holder's spouse and lineal descendants, ascendants, and their spouses, a beneficiary of the IRA, advisors or managers of the IRA, any corporation, partnership or estate that the account holder has at least a 50% stake in, any trustee or custodian of the IRA, and anyone who provides services to the IRA. The disqualified person list is determined by the IRS. It is important to pay close attention to this list when transacting with your SDIRA.

**Prohibited transactions** are transactions between an IRA and a disqualified person that benefits the disqualified person. These transactions can include selling or leasing a property, providing credit or a loan, providing goods or services, or any other interaction or transfer of assets that benefits a disqualified person.

Understanding prohibited transactions and making sure your LLC and SDIRA avoid dealings with a disqualified person is an important part of self-directing your accounts. In the event that these rules are not followed, SDIRA owners jeopardize the tax-advantaged status of their investment(s) and may be subject to paying both taxes and penalties. Consequently, it's important to **learn the ins and outs of the rules**, and be sure to consult with your legal and financial advisors.

It is important to always remember that the SDIRA is the owner of the LLC. No income received from the investments in the LLC can be paid into your personal accounts, and all the expenses should be paid out of the LLC.



## Investment options with an LLC



While Entrust allows SDIRAs to invest through an LLC, we do not establish LLCs.



Consult with legal counsel that is familiar with LLC state laws and IRA rules to ensure that your documents are written with provisions to avoid prohibited transactions.



An LLC for investing purposes must be a newly formed entity. You cannot invest with your SDIRA through an LLC you have created previously for another purpose.



Since LLCs must be established and registered in a state, it is important to know the [rules for establishing an LLC in your state](#). Different states also have different fees for registering an LLC.



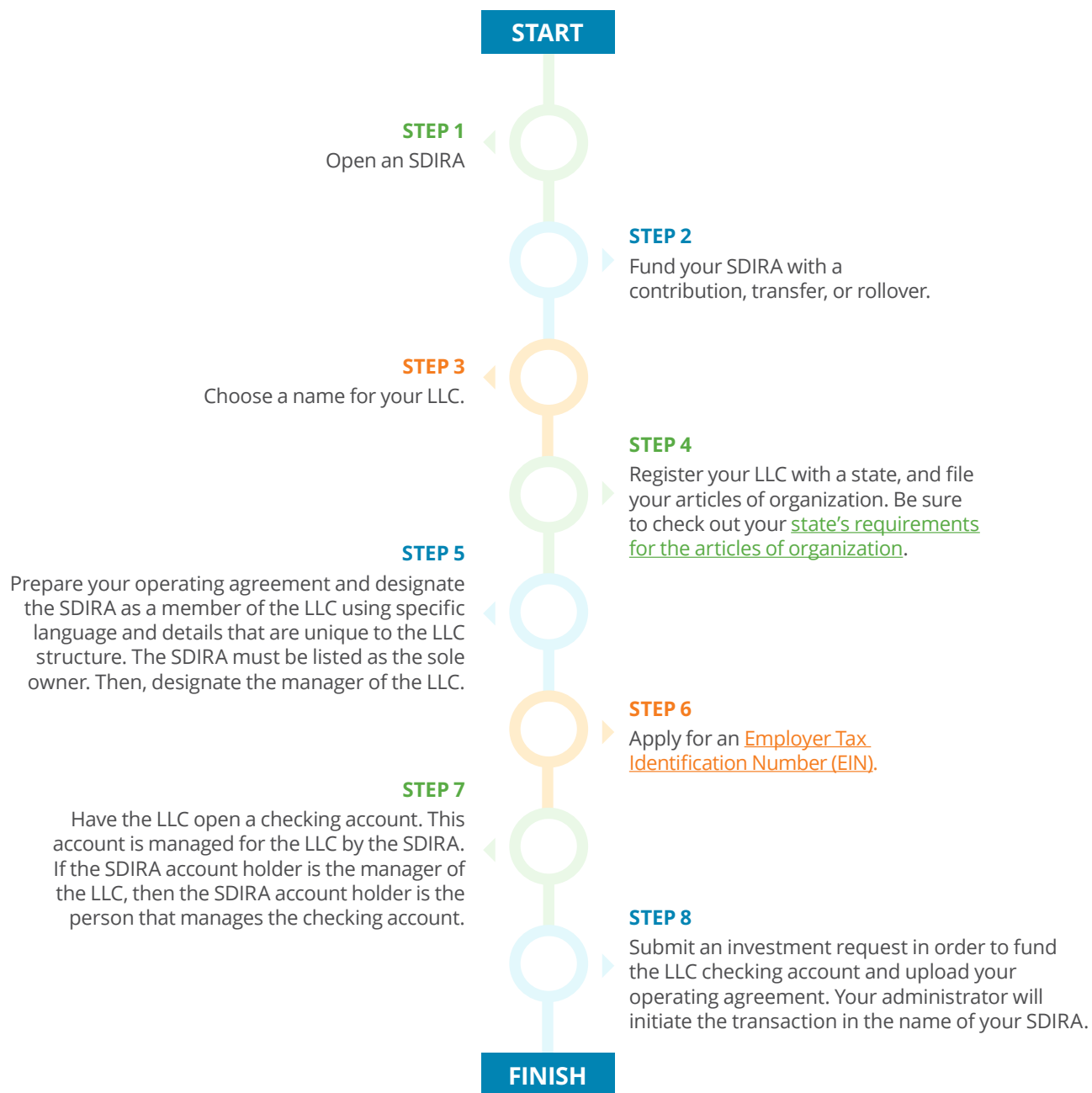
If you are establishing a multi-member LLC, you can only partner with disqualified persons when the LLC is initially created. Adding either funds or members that are disqualified persons after the initial structure is created would be considered self-dealing and prohibited.



The LLC must be set up so that the SDIRA owns 100% of the LLC. The SDIRA account holder cannot own the LLC personally. This would constitute a prohibited transaction and nullify the tax-advantaged status of the SDIRA. The SDIRA account holder is most often listed as the manager of the LLC.



# How to establish an LLC and begin investing with your SDIRA



Your SDIRA is now ready to purchase assets through the LLC.

# Frequently asked questions

For more answers to frequently asked questions about the LLC process, download our [LLC FAQs](#).

## **What advantages does using an IRA LLC have over simply purchasing an asset directly through my Self-Directed IRA?**

With an LLC you can have more control over your asset. You can have checkbook control which makes it simple to write a check to pay the expenses of the investment rather than waiting for the funds to be sent from the custodian. This also allows you to avoid transaction and check-writing fees that are typically associated with an SDIRA.

## **Will Entrust need to review investments I plan to make with my IRA LLC?**

No. Once you have checkbook control, Entrust will not need to review your investments.

## **Why can't my current broker be the custodian of my IRA LLC?**

Traditional brokers do not provide self-directed accounts, but Entrust provides the recordkeeping services that allow investors to hold alternative investments.

## **Can I use an LLC I already have?**

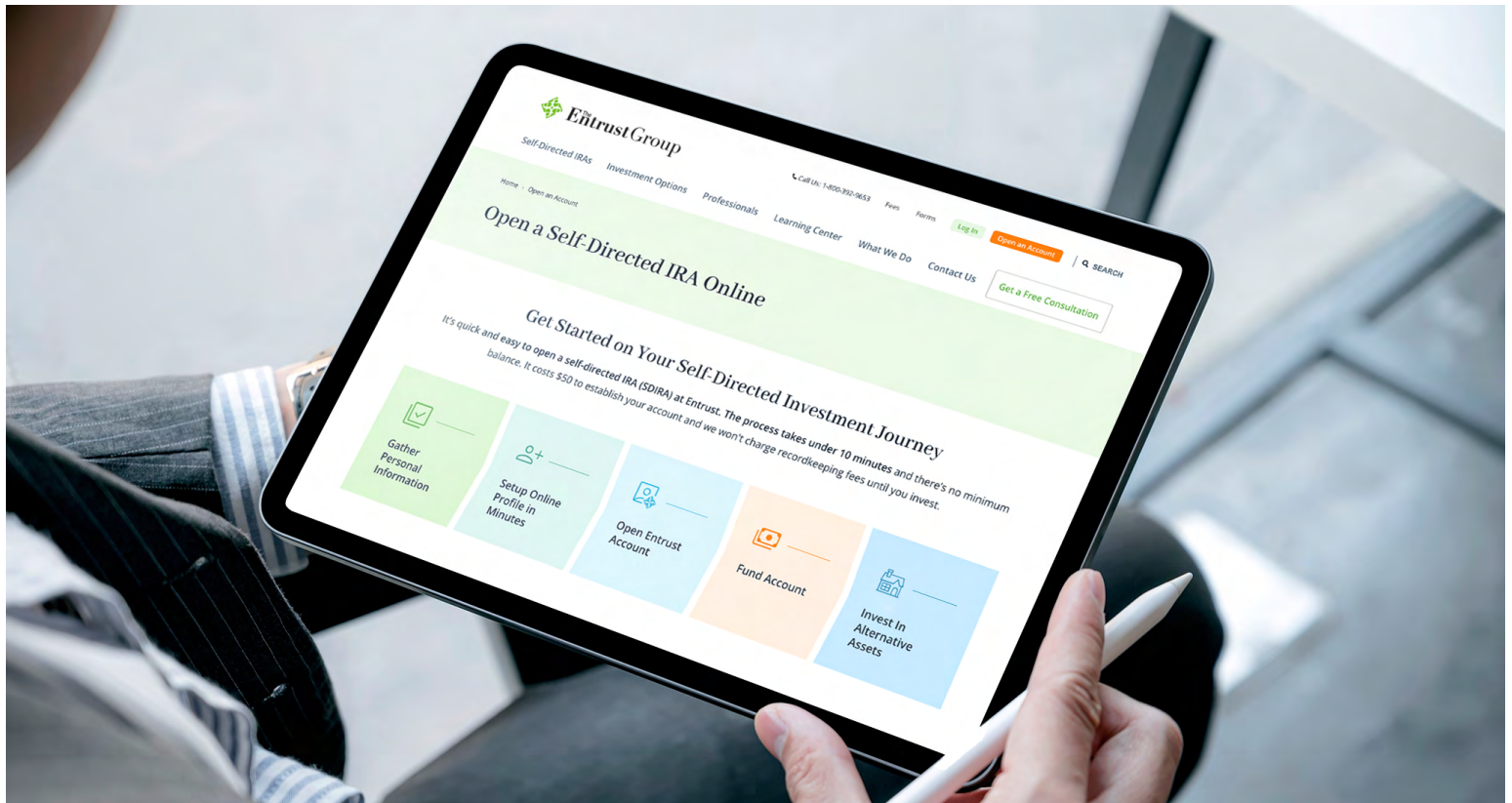
No. This LLC will not belong to you, personally. It must be a newly created LLC that is owned solely by your SDIRA.

## **What name will I purchase the assets under?**

All assets and investments will be purchased under the name of your SDIRA.

## **Will I need to provide my own EIN or can I use Entrust's?**

Your LLC must have its own EIN to report UBIT and UDFI. If you are using the EIN solely for recordkeeping purposes, your account can use Entrust's EIN.



## Get started today



Entrust exists to make investing with self-directed accounts accessible so that you can plan the retirement of your dreams. The IRS requires that self-directed accounts be administered by a custodian to ensure that all the recordkeeping for the accounts meets the IRS guidelines, and for over 40 years, we have been administering self-directed accounts for investors who invest in alternative investments. [Open an account at Entrust](#) to get started on your alternative investment journey.

**Schedule a consultation or contact us at 800-392-9653.**

**Questions? Chat with an Expert.**