IRA LLC Best Practices

Some self-directed IRA owners choose to establish an IRA LLC to gain checkbook control over their IRA assets. Instead of passing each transaction through your IRA custodian or administrator, such as Next Generation, everything flows through the newly formed LLC, which is essentially owned by the IRA.

This type of self-directed IRA setup is popular with real estate investors, since all investment income and expenses need to be paid and received via the IRA. Some types of expenses an investor may incur would be: flipping costs, repairs or maintenance, rental charges, etc.

Here are some general guidelines and responsibilities – as well as things you probably want to avoid from setup, to funding, to doing your first transaction and maintaining your IRA LLC:

SETUP

- First and foremost, you'll want to open and fund your Next Generation IRA
- Then, you'll want to form your IRA LLC with an ERISA attorney
  - A separate tax ID needs to be established for your IRA LLC
  - An Operating Agreement must be created acknowledging the IRA and applicable IRA rules and regulations

FUNDING

- When opening a bank account for your IRA LLC, ensure that only IRA funds specific to the investing IRA are used
- Ensure that no personal line of credit is used
- LLC funding and distributions must come from and go to your Next Generation IRA – funds cannot be sent from the IRA LLC to another IRA or to you personally
- LLCs with partners must adhere to the specific percentages of ownership broken down in the Operating Agreement
- If partnering with a disqualified person/entity, all funding into and out of the LLC must be done simultaneously with partner(s)

TRANSACTIONS

- Transacting with a disqualified person may cause the IRA to lose its tax advantaged status – some examples of these transactions include:
  - Loaning to a company owned by a disqualified person
  - Performing sweat equity for any IRA LLC investment
  - Receiving personal compensation
  - Transferring ownership to or from a disqualified person
  - Personally living in or using an entity owned by the IRA LLC
- If taking out a loan, please note that it must be a non-recourse loan
- All contracts must be in the name of the IRA LLC and not your personal name or your IRA's name
- Frequently check in with a CPA or your attorney to discuss transactions and maintenance of the IRA LLC – this is to ensure you are maintaining the tax advantaged status of the account and the LLC's adherence to IRS code

REPORTING/MISC.

- On an annual basis, the full LLC value must be submitted to Next Generation – this should include bank statements, and all assets/liabilities.
- Use the IRA LLC tax ID for tax reporting, not Next Generation Trust Company's custodial tax ID number or your personal social security number.
- Discuss tax scenarios such as UBTI or UDFI with your tax professional to determine whether or not they apply – if applicable, your IRA would need to obtain a new, separate tax ID.

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