



# Using the IRA/LLC Structure To Invest in Real Estate

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One of the more popular ways to use your self-directed IRA to invest in real estate is by using the IRA/LLC structure. A self-directed IRA requires using a custodian which is responsible for holding and administering the assets of the IRA. This method is typically more popular because it allows the IRA owner more control over the IRA transactions instead of waiting on your IRA custodian to complete transactions. The IRA/LLC method typically also saves you some transaction fees that many custodians may charge you to complete transactions.

To use the IRA/LLC method for your self-directed IRA, you will need to create an LLC that is owned by your self-directed IRA. You can set up the LLC so that you are the uncompensated manager of the LLC. Doing this allows you to have direct control over the LLC. The custodian can fund the LLC by writing a check to the LLC's bank account. Then you, as the uncompensated manager of the LLC, will be able to purchase properties and pay for expenses from the LLC without having to go through the custodian and having the custodian manage the transactions. Rent from the properties and any gains from the sale of properties must be paid directly to the LLC.

All of the rules of a self-directed IRA still apply. The LLC, since owned by the self-directed IRA, still keeps its tax deferred status on any income or gains. Neither you, nor any disqualified person, can directly benefit from the IRA/LLC. When it comes time that you would like to take withdrawals, you cannot take withdrawals from the LLC. You must deposit money from the LLC to the self-directed IRA, then take withdrawals directly from the self-directed IRA. Self-directed IRAs still follow the same rules as other IRAs. If withdrawals are made before the age of 59 1/2, early withdrawal penalties typically apply. Also, requirement minimum distribution (RMD) rules still apply. On tax deferred accounts, such as a traditional IRA, at age 70 1/2 you must start drawing a certain amount from the IRA to satisfy your RMDs or you will be required to pay hefty penalties.

The IRA/LLC structure is popular among self-directed IRA owners who want to invest in real estate because it offers more control and allows you to "cut out the middle man", which is the custodian, in many cases. This typically will lower your net fees and allows you to act more quickly as opposed to waiting on the custodian to complete transactions. This article is meant to share the concept of the self-directed IRA/LLC method, but for sake of the length of this article, can not cover every rule and caveat. Please note that I do not offer legal or tax advice. Please make sure to consult your tax, legal, or accounting professional before exploring this option.



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