IRA VALUATIONS

A ROTH CONVERSION GUIDE FOR IRA OWNERS

Convert to a Roth. Pay tax on what it's truly worth.

How an IRA-owned LLC and an independent valuation can lower the taxable value of your Roth conversion, with every step documented and on file with your custodian.



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Pay tax once. Then grow tax-free for life.

A Roth IRA is one of the best deals in the tax code. Putting an LLC inside your IRA makes getting there, and investing along the way, far simpler.

Once

You pay income tax at conversion. The growth after that is tax-free.

No RMDs

Roth IRAs and Roth Solo 401(k)s never force you to withdraw.

+10 years

Your heirs can generally keep it growing tax-free for ten more years.

Good to know: earnings come out tax-free once your Roth has been open five years and you are 59½. If you are already 59½, the converted amount itself can be withdrawn right away.

Checkbook control: you sign, not the custodian

Your IRA owns the LLC, the LLC holds your investments, and you, as manager, write the checks. One-time setup, then full control.

STANDARD SELF-DIRECTED IRA	IRA-OWNED LLC
✕ Custodian approves every investment	✓ **You approve as LLC manager**
✕ A fee on every buy and sell	✓ **One-time setup, no per-deal fees**
✕ Custodian signs every document	✓ **You sign as manager**
✕ Delays can cost time-sensitive deals	✓ **Move when the opportunity is there**
✕ Two IRAs, double fees and paperwork	✓ **One LLC holds everything**

Converting your LLC? The IRS needs its fair market value.

When the LLC moves from your Traditional IRA to your Roth, you owe tax on what it is worth that day. An independent valuator has to establish that value.

1

Roth conversion

The LLC's membership units move from your Traditional IRA to your Roth IRA.

2

Tax is due

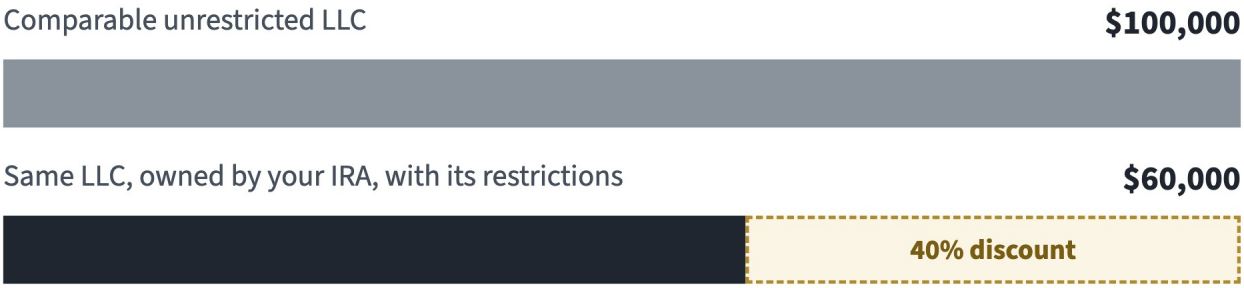
The converted value is taxed as ordinary income for that year.

3

Valuation required

The IRS expects a defensible fair market value as of the conversion date.

WORKED EXAMPLE



Illustrative only. Your taxable value depends on your own formal valuation, which is reviewed by a CPA.

THE DISCOUNT IS FOUND IN TWO STAGES

Stage 1 · Each asset

Every asset is valued on its own terms. Promissory notes, for example, are weighed on rate, payment history, collateral and term, and often come in 20–30% below face value. Cash, precious metals and bitcoin carry no discount.

Stage 2 · The LLC itself

The restrictions your IRA requires in the operating agreement mean an outside buyer would pay less for this LLC than for an unrestricted one. That supports a further discount.

When discounts raised the tax, the IRS argued for them itself.

In *Bergquist v. Commissioner* (2008), the Tax Court adopted the steep discounts the IRS asked for. Fair market value includes discounts, no matter who benefits.

WHAT HAPPENED IN BERGQUIST

Doctors donated stock in their practice to charity and deducted their appraiser's full value. The IRS's own expert said no buyer would pay full price for a stake he couldn't control or easily sell.

Value the doctors claimed, per share **$401.79**



Value the Tax Court set, with discounts **about $37**



35% **Lack of control**
The buyer can't direct the business, force a sale or force distributions.

45% **Lack of marketability**
No ready market exists to resell the interest.

Discounts cut both ways. The IRS can't call discounts real when they raise tax and imaginary when they lower it.

HOW IT APPLIES TO YOUR ROTH CONVERSION

When part of your LLC converts to your Roth, you're taxed on the fair market value of the interest converted: the same willing-buyer, willing-seller test the Tax Court used. A 50% interest isn't a controlling one.

- ✓ **No control:** it can't break a tie, force distributions or dissolve the LLC alone
- ✓ **No market:** nobody advertises half of a private LLC for sale
- ✓ **Built on facts:** an independent appraisal sized to your LLC, not copied from another case

Bergquist's discounts fit that company's facts; yours come from your LLC's own appraisal. Source: *Bergquist v. Commissioner*, 131 T.C. 8 (2008). General information, not legal or tax advice.

When your IRA owns a company, the company plays by IRA rules.

It’s a federal regulation called the Plan Asset Rule. The idea is simple.

Retirement money is meant for retirement. Federal law says you and your family can’t use it to benefit yourselves today. Breaking these **“prohibited transaction” rules** brings stiff penalties.

HOW MUCH OF THE COMPANY DO RETIREMENT ACCOUNTS OWN?



Under 25%: the rules cover only the IRA’s share.

25% or more: the government treats everything the company owns as if it were sitting inside the IRA.

WHAT THAT MEANS DAY TO DAY

Every deal is checked

Each purchase, loan or sale has to pass the IRA rules first.

No family deals

The company can’t do business with you, your family or anyone close to the account.

Some income gets taxed

The LLC can owe UBIT, a tax on profit from running a business or from property bought with a loan.

Mistakes are costly

One wrong move can mean penalty taxes, or the IRA losing its tax benefits.

Why it lowers the value: a company with all these rules is harder to finance, harder to sell and riskier to run, so buyers pay less. A valuation counts that as its own discount.

Sources: U.S. Department of Labor, 29 C.F.R. § 2510.3-101; IRC § 4975(e)(1); IRC §§ 511–514 (UBIT). Small, privately held LLCs usually don’t qualify for the exceptions. General information, not legal or tax advice.

Discounts multiply. They don't simply add up.

Each discount applies to what's left after the one before. Here's a $1,000,000 example.

LLC VALUATION EXAMPLE	DISCOUNT	VALUE AFTER
Starting fair market value of the LLC's assets	—	**$1,000,000**
Lack of control and marketability, specific to this LLC *Litchfield v. Commissioner, T.C. Memo 2009-21; Holman v. Commissioner, 130 T.C. No. 12 (2008); Jelke v. Commissioner, T.C. Memo 2005-131*	**18%**	$820,000
Restrictions on holdings and transactions	**5%**	$779,000
Plan asset rules: no personal use *26 U.S.C. § 4975; Department of Labor*	**4%**	$747,840
Operating Agreement terms barring prohibited transactions	**4%**	$717,926
Manager's sole discretion over distributions *26 U.S.C. § 4975(c)(1)*	**4%**	$689,209
51% majority in interest required for any member action *Section 9.5 of the Operating Agreement*	**10%**	$620,288
Mandatory wind-up built into the Operating Agreement *Section 3.3: dissolution within ten years after the IRA owner's death, mirroring the SECURE Act 10-year rule*	**5%**	$589,274
Fair market value after discounts	**41.07%**	**$589,274**

≈40%

A CONSERVATIVE TOTAL

Added up, these seven discounts would claim 50%. Multiplied the right way, they come to about 40%.

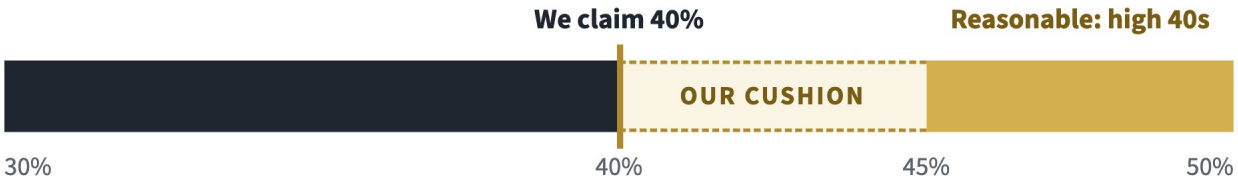
No step is aggressive: the largest, 18% for lack of control and marketability together, is below what either often runs alone.

Illustrative example. Which discounts apply, and by how much, depends on each LLC's facts and its formal valuation.

Why we're confident in a 40% discount.

In 10 years of IRA LLC valuations, the IRS has never challenged one of our conversions. People often ask why. Here is our answer.

WE SETTLE BELOW WHAT WE COULD REASONABLY CLAIM



Attorneys, valuators and custodians we work with agree an IRA LLC discount could reasonably reach the high 40s. We choose to stop at 40%.

IF THE IRS EVER CHALLENGED A VALUATION

1

We defend it in full

Our attorneys are on retainer and ready to defend every valuation we sign.

2

The Tax Court is neutral

It is an independent court, not part of the IRS. It sets fair market value from the evidence, not from either side's number.

3

It could even go up

Because 40% is conservative, the court could uphold it, or find the discount belongs in the high 40s.

What few people realize: the IRS wins most of its Tax Court cases largely because it chooses which ones to bring. A conservative valuation that a court could raise is not a case it wants to risk. We believe that is why we haven't been challenged in 10 years.

Past experience does not guarantee future results. Every valuation depends on its own facts, and the outcome of any challenge is decided case by case. General information, not legal or tax advice.

Start at your custodian. Come back holding a Roth.

A short, temporary stop at a specialist bank makes the conversion possible.

Your current custodian · Traditional IRA

1. **Transfer to Solera National Bank**
   A trustee-to-trustee transfer moves your Traditional IRA. No tax, no penalty.
2. **Form the LLC**
   We form the LLC and get its EIN and registered agent. Your IRA is the 100% owner and you are the manager. Funds go into the LLC's checking account.
3. **Independent valuation**
   IRA Valuations performs the IRS-required valuation, reviewed and approved by a CPA.
4. **Roth conversion**
   The LLC units move to your new Roth IRA. You are taxed on the appraised value, not the original amount.
5. **Transfer back**
   Your Roth returns to your original custodian by a standard Roth-to-Roth transfer.

Your current custodian · Roth IRA

WHAT YOU'LL DO

Complete Solera's online application, sign by DocuSign, and take a short call to confirm the amount. Your 1099-R arrives the following January for your tax professional.

CONVERT AT YOUR OWN PACE

The LLC issues units, so you choose how much to convert each year. Splitting across December and January can keep you in a lower bracket both years.

Why big brokerages won't hold your IRA LLC.

It's a business decision, not a legal one. An IRA LLC takes the brokerage out of the middle of your transactions, and the middle is where it earns its money.

HOW THEY EARN	HOW IT WORKS	WITH AN IRA LLC
Transaction fees	Charged on every buy and sell	You write checks; no per-trade fee
Fund expenses	Annual % on the funds they sell	The LLC holds real estate, notes and crypto, not their funds
Cash sweep	A spread earned on idle IRA cash	Cash sits in the LLC's own account
Advisory fees	A % of assets under management	LLC assets leave their billable total
Order flow	Rebates for routing your trades	No securities trades to route
Margin lending	Interest on loans against your portfolio	LLC assets can't serve as margin collateral

The IRA-owned LLC structure is well established. The Tax Court recognized it in *Swanson v. Commissioner* (1996).

Our custodian: Solera National Bank

PARTNERS SINCE 2016

Nationally chartered

A full national bank regulated by the OCC, not a limited-purpose trust company.

Built for this

It focuses entirely on self-directed retirement accounts.

One institution

It holds your IRA and the LLC's checking account, so funding takes days, not weeks.

FDIC-insured

Funds in the LLC's checking account are insured up to applicable limits.

WHY IRA VALUATIONS

Ten years of valuations. One team, start to finish.

22 years
forming IRA-owned LLCs as the founders and former owners of Check Book IRA®

12
different self-directed custodians we have used

10 years
performing IRA and Solo 401(k) valuations

0
times our valuation discount has been challenged

As former owners of Check Book IRA®, we helped clients structure IRA-owned LLCs every day. Through IRA Valuations, LLC, our team performs the independent valuation the IRS requires at conversion. You work with people who already know your structure.



The owners of IRA Valuations, LLC

Steven R. Sheppherd
EXECUTIVE ACCOUNT DIRECTOR

Steven R. Sheppherd
Executive Account Director, IRA Valuations, LLC

IRA VALUATIONS

Book your free 30-minute consultation

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