WEBINAR PRESENTATION

The Roth Rollback Strategy

The Efficient Way to Convert

IRA VALUATIONS

PREPARED FOR

Tax Plan Experts ·

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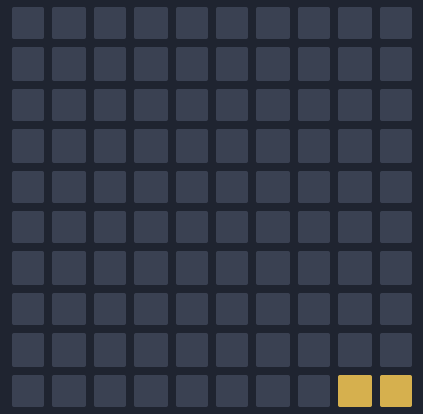
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This presentation is provided for educational and informational purposes only and does not constitute tax, legal, accounting, or investment advice; IRA Valuations, LLC does not provide tax or legal advice.

Examples are hypothetical and no particular discount, valuation outcome, or tax result is guaranteed, as actual valuation results depend on the specific facts and circumstances of each entity and are determined by an independent, qualified appraiser.

The Problem with Roth Conversions

Inefficient & Costly



2%

According to the Government Accountability Office approximately 2% of retirement assets are held in non-traditional or hard-to-value assets.

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FOR COMPARISON

Typical Conversion

ACCOUNT		HOLDS
IRA Brokerage firm	→	**Publicly-traded assets** $1,000,000

Client has an IRA held by a brokerage firm that contains publicly-traded assets of $1 million dollars. The market establishes the value of the IRA's assets in real-time.

Value set by the market in real time

THE CONVERSION SIDE

The Offset Problem

THE SCENARIO

Typical Conversion

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TAX ON THE CONVERSION

100% OF THE CONVERTED VALUE IS TAXABLE

CONVERTED VALUE	**$1,000,000**
DISCOUNT AVAILABLE	**$0**

In the typical Roth conversion, the client cannot take any discount on the value of the conversion because all the assets are publicly traded. **The client therefore begins with a 100% tax burden from the conversion side**, and a requirement to employ other planning with their advisor to reduce their tax hit.

A BETTER APPROACH

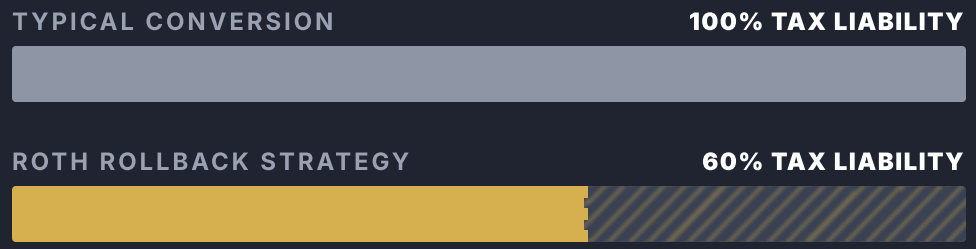
The Roth Rollback Strategy

The Efficient Way to Convert

WHAT IF...

60%

What if your client could reduce the tax liability of their Roth conversion from 100% to 60%?



This can be accomplished by your Client's IRA holding an LLC, which is an asset that can and will take a discounted valuation (approximately 40%) when converted.

Enter the IRA LLC Arrangement



Client sets up a Self-Directed Traditional IRA that owns 100% of an LLC. The LLC holds various assets totaling a face value of $1 million dollars. **The LLC is a private equity interest and is considered a "hard-to-value asset".**

Eligible for a discounted valuation

A HEAD START

Begin With an Immediate 40% Reduction

The conversion, by the numbers

EXAMPLE: $1 MILLION LLC

FACE VALUE OF THE LLC
$1,000,000

TAXABLE CONVERSION VALUE
≈ $600,000



95%+

Unlike 95%+ of taxpayers processing a Roth IRA conversion, **your Client can reduce the tax liability of the conversion itself by approximately 40%**

Your Products & Strategies

Any other products or strategies that you as an Advisor choose to employ for your Client become that much more effective. **Your products amplify the already reduced tax liability of the conversion.**

THE REASON BEHIND THE DISCOUNT

IRA Restrictions & Why They Matter



Retirement Accounts carry a number of restrictions related to fiduciary responsibility and self-dealing, as well as special taxation on certain forms of income (UBIT & UDFI)

These restrictions play an important part in **how the asset being converted (the IRA-owned LLC) is valued.**

Here is just a partial list of restrictions placed on retirement accounts:

- The IRA Owner and his spouse and lineal ancestors and lineal descendants (including spouses) may not have any personal dealings with the account
- These parties cannot guarantee any loans to the IRA or the IRA LLC
- Income that is not specifically exempt under 26 U.S.C. §512 is subject to a special tax (UBIT)
- Income from financed investments is subject to a special tax (UDFI)
- RMD requirements on tax-deferred account
- 10-year Distribution rule upon the death of the IRA Owner
- Third-Party Trustee/Custodian requirements for IRAs

HOW IT WORKS

The IRA LLC Arrangement

1 IRA ACCOUNTS

This setup requires that your client set up Self-Directed Traditional and Roth IRAs with **Solera National Bank** (a Nationally-Chartered Bank & Custodian specializing in the IRA LLC structure)

2 THE LLC

We establish an LLC (generally in Wyoming) specific for IRA ownership & conversions.

3 CUSTODIAN REVIEW

The Custodian must review and approve all LLC documentation, including filed Articles of Organization, EIN, and Operating Agreement.

4 FUNDING

You assist your client in transferring whatever amount they wish to work with to the new Traditional IRA. **Your Client's Traditional IRA funds and owns 100% of the LLC.**



5 FIRST CONVERSION

50% of the LLC's equity ownership is converted, carrying a (typically) 40% discount.

40% DISCOUNT

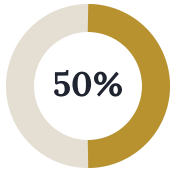


6 SECOND CONVERSION

The remaining 50% is converted either the same year or the following year, also at a (typically) 40% discount.

40% DISCOUNT

Why Convert 50% at a Time?



OF THE LLC

The IRA-owned LLC is subject to the Plan Asset Rule, making a 50% ownership stake unpalatable to a hypothetical buyer.



THE APPRAISAL

Revenue Ruling 59-60 defines Fair Market Value as:

> "The price at which property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell, and both having reasonable knowledge of relevant facts."

Issued 1959

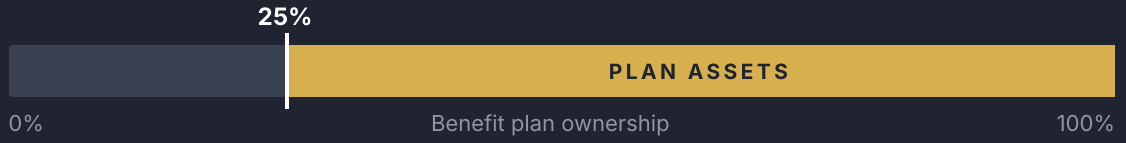
Enter the Plan Asset Rule

March 13, 1987 DEPARTMENT OF LABOR

The Department of Labor issues regulation 29 CFR 2510.3-101 establishing a **"look-through" rule** that determines when the underlying assets of a given entity are considered "plan assets", subjecting that entity to the same restrictions as retirement accounts.

29 CFR 2510.3-101(f)(1)

> "Equity participation in an entity by benefit plan investors is "significant" on any date if, immediately after the most recent acquisition of any equity interest in the entity, **25 percent or more** of the value of any class of equity interests in the entity is held by benefit plan investors..."



WHAT THE FREE MARKET SEES

Through the Eyes of a Willing Buyer

Under Rev. Rul. 59-60, a willing buyer would have to take into consideration the following restrictions that would apply to them after purchasing the 50% share:



1. **26 U.S.C. §4975 Disqualified Persons rules**
   The buyer, their spouse, lineal ancestors and lineal descendants are entirely disqualified from any dealings with the LLC. No manager's fee, no transactions of any kind.

2. **UBIT Restrictions**
   The LLC cannot engage in activities that would result in active or business income; investment income is restricted to 26 U.S.C. §512 income. Entire classes of income are not available to the LLC.

3. **UDFI Restrictions**
   No disqualified person may guarantee a loan made to the LLC; only non-recourse lending is available. The IRA Partner is taxed on any income resulting from a financed transaction.

4. **IRA Partner**
   The buyer's partner is the IRA which consists of the IRA Owner as an individual and the 3rd Party Trustee or Custodian of the IRA. Special approval must be acquired from the IRA's Custodian for certain transactions.

5. **Death of an IRA Partner**
   Requiring a 10 year distribution rule of the LLC's interest and assets, further complicating things.

STEP BY STEP

Overview of Setup & Conversion Process

Set up

ACCOUNTS & LLC

1. **Onboard Your Client:** Client needs to have an idea of how much they intend to move over to be converted
2. **LLC Creation:** We immediately begin work on creating the LLC and establishing the necessary documents for the company
3. **Open IRAs:** You and your client complete an online application to open a Traditional and Roth IRA at Solera National Bank
4. **LLC Docs Signed:** When the LLC has been filed with the State and its documents created, your client signs those documents - you are cc'd on everything

Fund & first conversion

FIRST 50%

5. **Transfer of Funds:** You and your client determine what they wish to transfer over to the new Traditional IRA and they submit a Transfer Authorization Request to Solera
6. **Transfer Complete & Valuation:** Once the transfer is complete, we begin the valuation of the LLC's 50% equity ownership that is being converted
7. **First Conversion Request:** Your client submits an IRA Conversion request for the first 50% conversion, along with all the relevant LLC documents and Valuation Report
8. **First Conversion Complete:** Solera processes the first conversion, moving 50% of the LLC's ownership to the Client's Roth IRA

Second conversion

REMAINING 50%

9. **Second Conversion Request:** Your client submits a second IRA Conversion request for the second 50% conversion
10. **Second Conversion Complete:** Solera processes the second conversion, moving the remaining 50% of the LLC's ownership to the Client's Roth IRA
11. **Your client's Roth IRA now owns 100% of the LLC**
12. **Custodial Tax Reporting:** Solera issues a 1099-R the following January to report the conversion amount