



SAFEGUARD ADVISORS

Checkbook Control: A Comprehensive Guide

**Break Free From Wall Street.
Unlock Your Retirement.**

What is a Self-Directed IRA with Checkbook Control?

The two Avenues Inside the Self-Directed IRA World

Most people don't realize that when it comes to investing retirement funds in alternative assets. Things like real estate, private loans, precious metals, or business equity there are actually **two different ways** to do it. Both fall under the umbrella of a Self-Directed IRA, but they work very differently.

Avenue 1: Direct Custody

This is the more common starting point. Your IRA is held by a specialized custodian who allows you to invest in alternative assets. However, every time you want to make an investment, that **custodian has to review and approve the transaction first**. This can take anywhere from 48 to 72 hours or more. You are also typically paying fees along the way for processing and money transfers.

Think of it like ordering an Uber. You can absolutely get to where you're going, but you have to open the app, request a driver, wait for them to accept, and then wait for them to show up. If you're in a hurry or the timing is critical, you're at the mercy of someone else's schedule. Sometimes the ride shows up fast. Sometimes it doesn't. Either way, **you're not the one holding the keys**.

Avenue 2: Checkbook Control

This is where investors level up. Instead of your IRA investing directly through a custodian, your IRA first creates, owns, and funds a **specialized legal entity**, either a Trust or an LLC. That entity opens its own bank account, and **you control it**. When you find a deal, you act immediately with **no custodian approval** and no waiting.

Think of this like having your own vehicle parked in your driveway. When an opportunity comes up, you grab your keys and go. No app, no driver, no waiting. You decide when you leave, which route you take, and how fast you get there. That kind of freedom can make all the difference when a deal has a short window.

The Big Takeaway

Both avenues get you to the same destination, using your retirement funds to invest in alternative assets. The difference is who controls the speed, the timing, and how it effects your wallet.

With Direct Custody, you're requesting the ride and hoping it arrives in time and paying for the process. With Checkbook Control, you own the vehicle.

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The Checkbook Control Structure

The flow is simpler than it looks. Here's what you're seeing, step by step.

It all starts with money you already have saved in a retirement account, whether that's an old 401(k) from a previous employer or a traditional IRA. Through a transfer or rollover, that money moves into a Self-Directed IRA, which can be set up as a Traditional, Roth, or SEP account depending on your situation.

From there, your Self-Directed IRA creates and becomes the owner of a specialized legal entity, either an LLC or a Trust. This is the key step that unlocks Checkbook Control. That entity then opens its own dedicated checking account, and here's where it gets exciting: you are the one managing it.

Once the checking account is funded, you have the ability to invest in nearly anything the IRS allows, including real estate, cryptocurrency, private equity, and much more. Income from those investments flows back into the account, expenses flow out, and everything stays organized under one structure.

The result is a system where your retirement funds are working for you, on your timeline, in the kinds of investments most people never knew their IRA could touch.

Existing Retirement Funds

(Previous Employer Plans, Other Personal Brokerage IRA's, etc.)

Transfer or Rollover

Self-Directed IRA

(Can be Traditional, Roth, or SEP)

Owner of the

Specialized Entity

(LLC or Trust.)

You Manage

LLC/ Trust Checking Account

Income

Expenses



Real Estate



Cryptocurrency



Private Equity

INVEST IN ANYTHING ALLOWABLE BY LAW!

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IRA Trust: Simplicity, Privacy & Efficiency

An IRA Trust is one of the two ways to set up Checkbook Control, and for a lot of investors it ends up being the preferred starting point. *Here's why.*

When you set up an IRA Trust, a legal agreement is created that names your IRA as the sole beneficiary and you as the Trustee. In plain terms, your IRA is the silent owner in the background, and you are the one with the keys. It is a straightforward arrangement that gives you direct control without a lot of moving parts.

For investors who value privacy and want to keep ongoing costs low, the IRA Trust is often the path of least resistance.

How It Gets Set Up, Step by Step

Open a Self-Directed IRA: Start by opening an account with a custodian that specializes in self-directed investing. Most traditional brokerages do not offer this.

Create a Trust Agreement: A legal document is drafted naming you as the Trustee and your IRA as the beneficiary. This is typically a revocable trust, meaning it can be adjusted down the road if your situation changes.

Open a Trust Checking Account: A bank account is opened in the trust's name, for example "The Smith Investment Trust." As Trustee, you now have direct access to those funds.

Fund the Trust: Your custodian moves funds automatically from your IRA into the trust. The capital now lives inside the trust and is ready to be deployed.

Real World Example: How Mike Used an IRA Trust in California

Mike is a California resident who wanted to use his retirement savings to invest in real estate and private deals. He quickly ran into a common obstacle, California charges LLCs an \$800 annual franchise tax, which would quietly eat into his returns every single year.

To avoid that, Mike chose the IRA Trust route instead. Here is how it played out:

The Strategy: Mike set up "Mike's IRA Trust" and funded it with \$150,000. Because a trust is a private document and does not need to be registered with the Secretary of State, Mike bypassed the \$800 annual fee entirely and had no need for a registered agent.

The Execution: Mike put \$100,000 into a private mortgage note and used the remaining \$50,000 to take an equity stake in a local startup.

One Thing to Know: Even with a trust structure, the IRS still requires some reporting. Mike's custodian needed an independent annual valuation of both the startup shares and the outstanding loan balance in order to accurately file Form 5498, which reflects the true fair market value of the IRA. It is a straightforward compliance step, but worth knowing upfront.

Mike's approach prioritized privacy and cost savings, and the IRA Trust delivered on both. That said, some investors want stronger legal protection between themselves and their investments. For those situations, the LLC structure may be the better fit and that is exactly what we will cover next.

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IRA LLC: The Corporate Shield

The IRA LLC works a lot like the IRA Trust in terms of giving you Checkbook Control, but it comes with one significant added benefit: formal liability protection.

With this structure, your IRA is the sole Member, which is just a fancy word for owner, and you are the Manager. That means you are running the show day to day, while your IRA holds the ownership in the background. This setup is widely recognized by title companies and traditional financial institutions, which makes it especially useful when you are buying real estate or making more complex investments.

What Makes the LLC Different: The Corporate Shield

Here is where the LLC pulls ahead of the Trust for certain investors. When you hold an investment inside an LLC and something goes wrong, say a liability issue comes up at a rental property, any legal claim is generally limited to the assets held inside that LLC. Your personal finances and your other IRA holdings stay protected. Think of the LLC as a legal wall between your investments and everything else you own.

Real World Example: How Jane Used an IRA LLC to Win at Auction

Jane spotted a distressed property at a local real estate auction and knew it was a great deal. The catch was that she needed to wire funds the same day to secure the bid. A traditional custodian could not move that fast.

Because Jane had already set up her Checkbook Control IRA LLC, she was ready to move. The Strategy: Jane used her IRA LLC to handle the purchase from start to finish, with no custodian approval needed.

The Outcome: On the morning of the auction, Jane wired \$120,000 directly from her LLC bank account and secured the winning bid on the spot.

Professional Titling: To stay fully compliant with IRS rules, the property was titled precisely as "ABC Investments LLC, an LLC owned by Custodian FBO Jane's IRA." This language is important because it makes clear that the IRA is the true owner of the asset.

Operational Control: As the Manager of the LLC, Jane hired contractors and oversaw the entire renovation directly through the LLC. When she sold the property six months later, every dollar of profit went back into the LLC bank account, tax deferred, without Jane ever paying herself or mixing personal funds into the deal.

So Which One Is Right for You?

Both the IRA Trust and the IRA LLC get you to the same place: Checkbook Control over your retirement funds. The decision really comes down to your priorities. If keeping costs low and staying private are your main goals, the Trust is often the simpler path. If you want stronger legal protection between yourself and your investments, especially for real estate, the LLC is usually worth the extra setup cost.

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Compliance: The Rules of the Road

Having Checkbook Control is a powerful thing, but with that power comes responsibility. The IRS has a clear set of rules around these structures, and staying on the right side of them is what keeps your tax-advantaged status intact. The good news is that the rules are straightforward once you understand them.

How the IRS Views Your Entity

For tax purposes, both the IRA Trust and the IRA LLC are classified as "Disregarded Entities." That simply means the IRS looks right through the entity and treats it as an extension of your IRA. Because of that, your entity does not file its own separate tax return, and its tax-exempt status flows directly from the IRA itself. It does have its own EIN, which is basically a social security number for a business, and that is used for banking purposes.

What You Cannot Invest In

Regardless of which structure you choose, the IRS does not allow either entity to invest in the following 3 things:

1. S-Corporation stock
2. Life insurance contracts
3. Collectibles such as art, stamps, or certain metals

Three Things You Can Never Do

Beyond the investment restrictions, the IRS strictly prohibits what are called Prohibited Transactions under IRC Section 4975. These are the big three to always keep in mind:

Avoid Disqualified Persons: We'll cover this in more detail on the next page.

Personal Use: You cannot live in, vacation in, or personally use any property owned by your entity, even for a single night.

Commingling: Your personal money and your entity's money must always stay completely separate. Never mix the two.

Self-Dealing: You cannot pay yourself a salary, management fee, or commission for work connected to your IRA investments.

Two Tax Forms Worth Knowing

Form 5498: Each year, your custodian is required to report the fair market value of your entity's assets to the IRS. This is why independent valuations, like the one Mike needed for his startup shares, are sometimes required.

Form 990-T: If your entity earns what the IRS calls Unrelated Business Taxable Income, or UBIT, a separate tax return must be filed through the IRA. This most commonly comes up when a property is purchased using debt financing, such as a mortgage.

The bottom line is simple: keep your personal life and your IRA's investments completely separate, avoid doing business with family, and stay in your lane. When you do that, the structure works exactly the way it is designed to.

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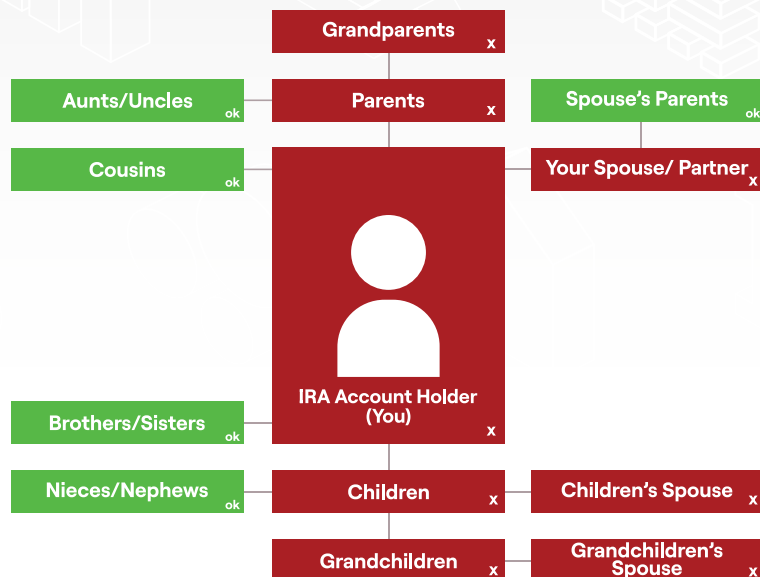


Compliance: Disqualified Persons

Prohibited Transaction Basics

Whether you're new to self-directed investing or already deploying capital, it's critical to understand how a self-directed IRA is allowed to operate. The IRS sets clear rules around what types of investments are permitted and, just as importantly, who your IRA can and cannot transact with. Failing to follow these rules can result in a prohibited transaction, which may cause your IRA to lose its tax-advantaged status and trigger serious tax consequences.

Disqualified Persons



Other Disqualified Parties:

- **Fiduciaries of the account**
(your financial advisor, investment advisor, tax advisor, etc.)
- **Entities majority owned by a DQP**
(a business owned 50% or more by a DQP)
- **Business partners**
(stakeholders, managers, executives, board members, etc.)
- **Service Providers to the account**
(your attorney, custodian, or account administrator)

Partnering with Disqualified Persons

In limited situations, an IRA may invest alongside a disqualified person (DQP) only if ownership percentages are clearly defined at the outset and strictly maintained for the life of the investment. Any deviation from the established ownership percentages may result in a prohibited transaction.

For example, Jane and John Smith (husband and wife) each establish an IRA and decide to invest in the same asset as equal partners. This means each IRA must own 50% of the investment. If they purchase a property with a total cost of \$300,000, each IRA must contribute \$150,000 at the time of acquisition.

Going forward, all contributions, expenses, and income must be handled pro rata based on that 50/50 ownership. Each IRA must fund 50% of every expense and receive 50% of all income.

Consequences of a Prohibited Transaction

If an IRA engages in a prohibited transaction and the issue cannot be corrected, the IRS treats the entire IRA as distributed to the account owner as of January 1 of the year in which the prohibited transaction occurred. At that point, the account loses its IRA status entirely.

This typically results in immediate taxation of the full account value, along with early withdrawal penalties if the owner is under age 59½, and potentially other tax consequences.

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Which Plan Is Right for You?

By now you understand the two avenues inside the Self-Directed IRA world, and you know the two structures that make Checkbook Control possible. The last step is simply figuring out which vehicle fits your situation best.

There is no universally right answer here. It really comes down to what you are investing in, where you live, and what matters most to you. Here is a simple way to think about it:

You May Want to Choose the IRA Trust if...

- You live in a state with high annual LLC fees, like California's \$800 franchise tax, and want to avoid that recurring cost
- You want to keep your name off of public state registries and prefer a more private structure
- Your investments are lower liability in nature, things like private mortgage notes, startup equity, or cryptocurrency
- You want the fastest and simplest path to getting set up and funded

You May Want to Choose the IRA LLC if...

- You are buying physical real estate or other higher risk assets where having a legal wall between you and the investment matters
- You are working with title companies or vendors who need to see a formal, state recognized business entity
- You live in a state with low or no annual LLC registration fees, making the structure more cost effective
- You are building a larger portfolio of multiple assets and want everything organized under one formal corporate umbrella

The Bottom Line

Both structures put you in the driver's seat. Both give you the speed, flexibility, and freedom that Direct Custody simply cannot match. The difference is really just about matching the right tool to the job.

If you are still not sure which path makes the most sense for your situation, that is exactly what we are here for. A quick conversation with our team can help you get clear on the right structure, walk you through the setup process, and make sure you are starting on the right foot.

Ready to take the next step? Schedule your free introduction call below and let's build your Checkbook Control IRA the right way.

[Schedule Your Free Intro](#)

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