



Bitcoin: It's Not Just a Currency, It's an Asset Class

Individuals may know Bitcoin as a volatile digital-based currency that has been attracting headlines, but in the IRS' eyes, Bitcoin is considered property. Commentators have noted that Bitcoin represents a new type of asset class.

For investors and philanthropists, the IRS classification of Bitcoin as an asset class (and not as a currency) may provide unique gifting and estate planning opportunities.

In 2014, the IRS ruled that for federal tax purposes, virtual currency is treated as property and transactions completed using digital currency should ultimately be reported in U.S. dollars. This is done by determining the fair market value of Bitcoin at the time of a transaction. The difference between when the Bitcoin was acquired and when it was converted into US dollars or is used in a purchase could result in a capital gain or loss.

As certain investors have seen meaningful appreciation in their Bitcoin holdings, one consideration is for an individual to make charitable contributions using Bitcoin in lieu of cash or marketable securities. While there may be valuations required by the IRS or other issues to address (such as minimum holding requirements), using this asset class can provide the tax-advantaged strategy of donating appreciated securities.

If that sounds too esoteric, philanthropists may find comfort in knowing that in recent years, certain donor advised funds have started accepting Bitcoin donations. With Bitcoin touching new highs, it may be a good time to take advantage of this opportunity.

Even if investors are not ready to donate their Bitcoin to charity, they should still be sure to track it and include it in their estate planning discussions as they would do with any other asset. However, because of the opacity surrounding Bitcoin, holders will have to take extra steps to make sure their heirs are aware that Bitcoin investments exist and the process required to access or liquidate it.

The volatility of Bitcoin also makes it a good candidate for certain estate planning techniques. The use of a Grantor Retained Annuity Trust (GRAT) can be attractive for a Bitcoin investor as a wealth transfer vehicle.

Compliance is essential in order to preserve wealth and meet financial and charitable goals, but the ever-changing nature of tax laws can be challenging to manage.

For more information or assistance with finding the optimal strategy for your unique situation, contact your Anchin relationship partner or a member of Anchin's Private Client Group at info@anchin.com.



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