

 **bitcoin**

Can I earn
interest on
Crypto/Bitcoin in
My Solo
401k/IRA?

<https://www.mysolo401k.net/>

1-800-489-7571

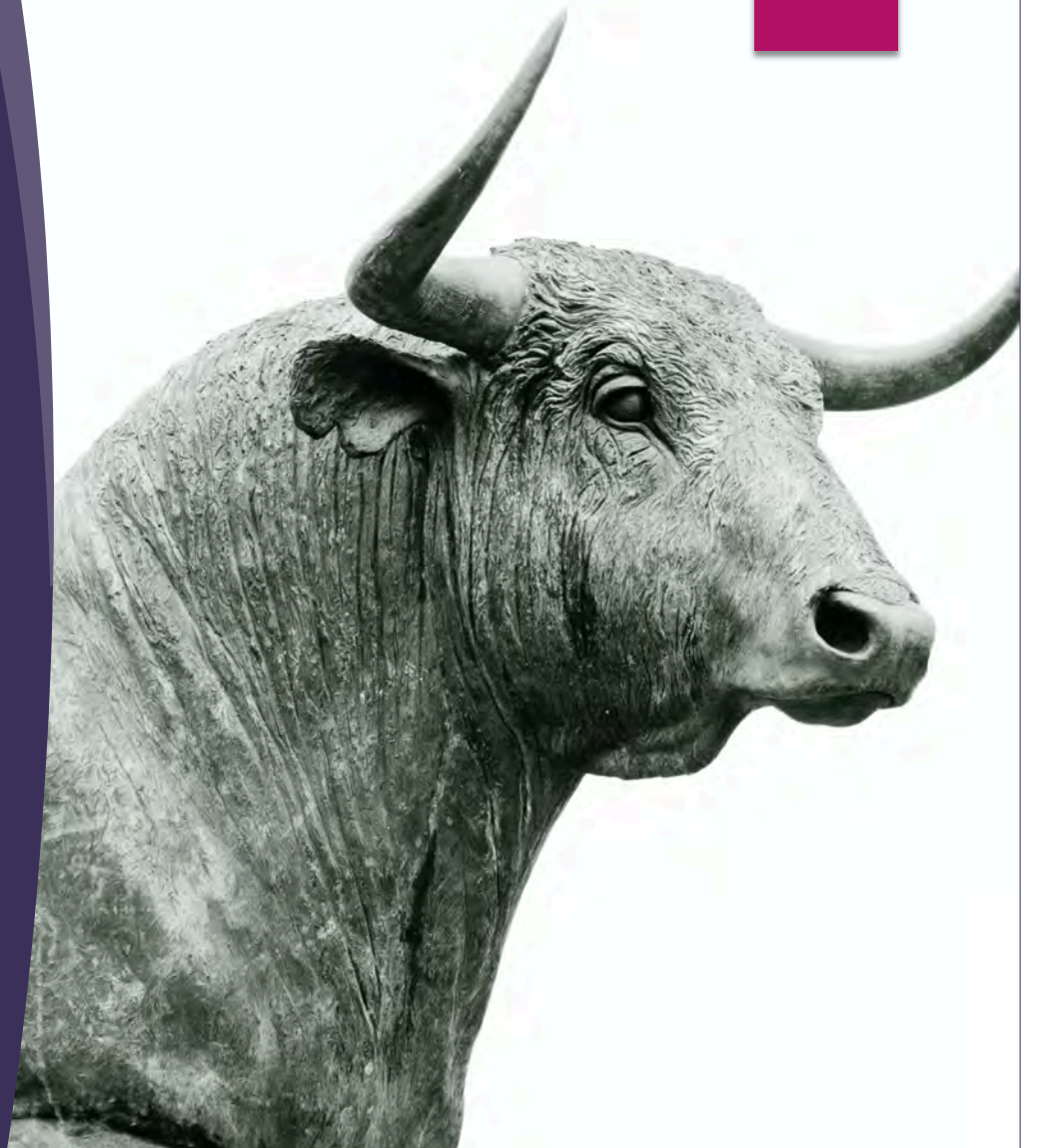


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Can I earn interest on Crypto/Bitcoin in My Solo 401k/IRA?

- ❖ *IRS View of Cryptocurrency*
- ❖ *How to Invest Retirement Funds in Crypto*
- ❖ *How to Earn Interest on Crypto/Bitcoin*
- ❖ *Will the IRS tax interest on Crypto/Bitcoin in My Solo 401k/IRA?*
- ❖ **LEARN MORE**
- ❖ **NOTE: PROVIDED FOR INFORMATIONAL/EDUCATIONAL PURPOSES ONLY**



What is Cryptocurrency?

- Per IRS Revenue Ruling 2019-24:
 - Virtual currency is a digital representation of value that functions as a medium of exchange, a unit of account, and/or a store of value.
 - Cryptocurrency is a type of virtual currency that uses cryptography to secure transactions that are digitally recorded on a distributed ledger, such as a blockchain.
- Popular cryptocurrencies:
 - ❖ Bitcoin
 - ❖ Ethereum
 - ❖ Litecoin

IRS View on Taxation of Cryptocurrency

- The IRS has issued guidance that cryptocurrency will be treated as property for federal tax purposes (see e.g. IRS Notice 2014-21).
- ***Outside of a retirement account:*** the income or gains from the sale of cryptocurrency will be subject to capital gains tax rates (short-term or long-term as applicable).
- ***Inside a retirement account:*** the gains/income derived from a cryptocurrency investment are tax-deferred (or potentially tax-free in the case of a Roth Solo 401k account).
 - ❖ **Possible exception:** If you invest your IRA LLC funds in mining cryptocurrency, the income generated may be subject to unrelated business income tax (UBIT) if the mining is considered an active trade or business.

Steps to Invest Solo 401k Funds in Cryptocurrency

➤ **STEP 1 - Open a Solo 401k**

- Confirm that you are eligible (self-employed w/ no full-time W2 employees)
- IRS-approved plan that allows for cryptocurrency investments & provider with experience in helping others invest

➤ **STEP 2 - Fund the Solo 401k**

- Open a bank account in the name & EIN of the Solo 401k
- Rollover Former employer plan or non-Roth IRA funds and/or make 401k contributions

➤ **STEP 3 - Open & Fund Account at Cryptocurrency Exchange**

- Open a Cryptocurrency Exchange Account in the name & EIN of the Solo 401k
- Transfer funds from the Solo 401k bank account

➤ **STEP 4 - Store Cryptocurrency**

- Separate and segregated wallet exclusively for Solo 401k investments
- Store in safety deposit box associated with Solo 401k bank account

Steps to Invest Self-directed IRA LLC in Cryptocurrency

Investing a Self-Directed IRA LLC in Cryptocurrency

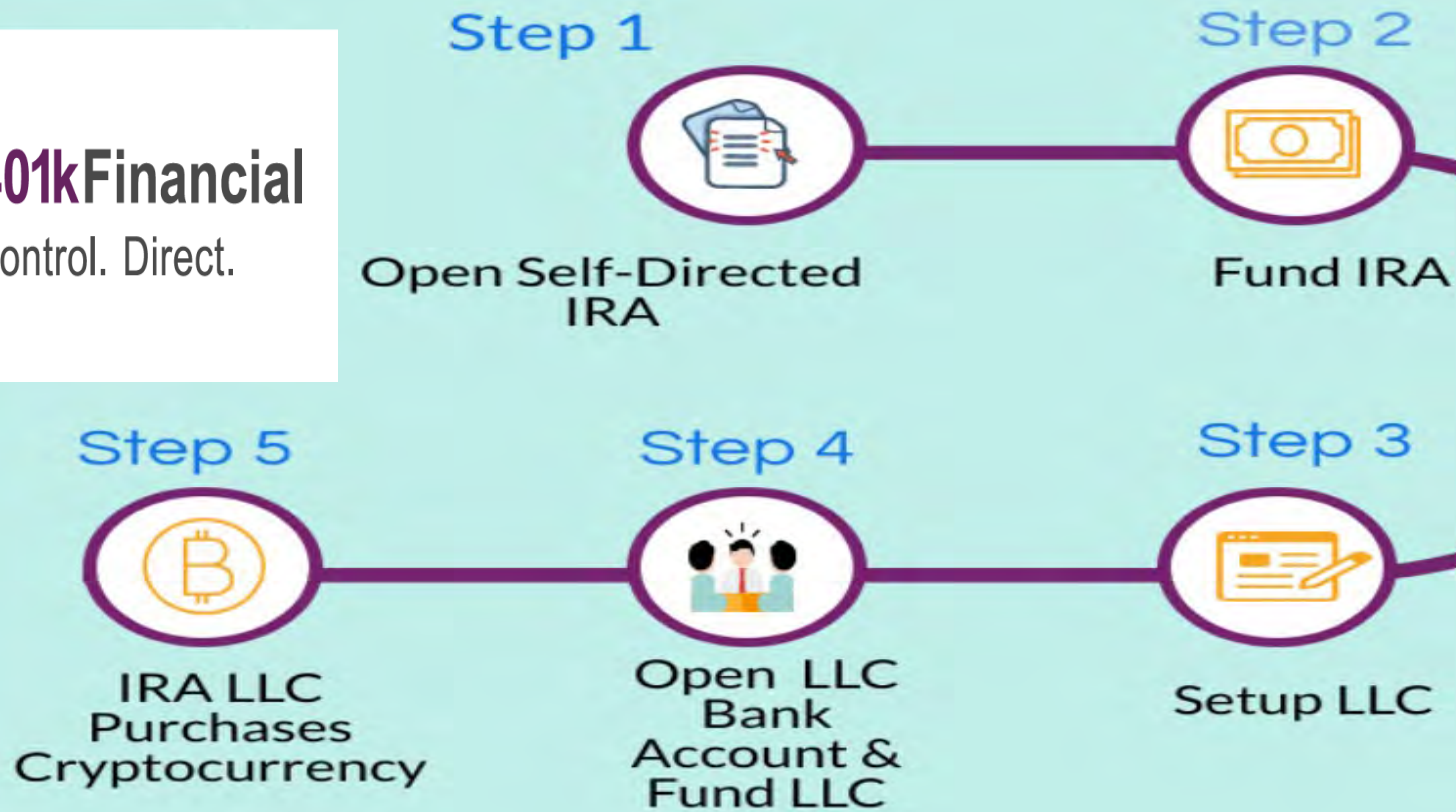
The cryptocurrency account is opened in the name of IRA owned LLC, NOT the self-directed IRA.

5 Steps



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How to Earn Interest on Crypto/Bitcoin in IRA/Solo 401k

- ❖ Often Marketed as a “Savings Account”
 - *Gemini Earn*
 - *BitcoinIRA*
 - *BlockFi*
- ❖ Typically structured as a loan where the platform allows you to lend your cryptocurrency to certain institutional borrowers.
- ❖ Much higher interest rates vs. true bank savings account or certificates of deposit

Will the IRS tax interest on Crypto/Bitcoin in My Solo 401k/IRA?

- ❖ **No clear guidance**
- ❖ **Possible Implications of the “property” classification**
 - **May consider the transaction to be a “sale” since the same cryptocurrency is not returned (contrast with USD which is “fungible”)**
 - **Practically the gains are still tax-deferred**
 - **Unrelated Business Income Tax (UBIT)**
 - **Generally, rent from personal property is subject to (UBIT)**
 - **Could the interest paid be characterized as similar to "rent" paid on personal property**

Additional Issues

- ❖ **Margin Loans (i.e. use cryptocurrency in you retirement account as collateral for a loan)**
 - **IRS: If the owner of an IRA pledges part of the IRA as collateral, the part of the IRA that is pledged is treated as distributed**
- ❖ **Buy Cryptocurrency on Margin is likely subject to UDFI**
 - **It is established that purchase of securities on margin is subject to Unrelated Debt-Financed Income Tax**
 - **While cryptocurrency is considered “property”, the general UDFI exception for qualified retirement plans is limited to “real property”**

Solo 401K: Learn More!

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