Unchained

The definitive bitcoin IRA handbook

JEFF VANDREW, JESSY GILGER, & STEPHEN HALL

APRIL 2024

Contact

Follow Unchained on twitter: @unchainedcom

Send Unchained an email: hello@unchained.com

Jessy Gilger was an Unchained employee at the time he authored any articles herein. Jessy has since that time become Senior Advisor at Sound Advisory, an investment advisory firm which focuses on individuals with bitcoin holdings. Jessy can be contacted at jessy@thesoundadvisory.com

Sound Advisory
POWERED BY UNCHAINED

Table of Contents

I. Introduction

Bitcoin is a monetizing asset poised to become a world reserve asset. On the pathway there, there's an immense opportunity for those saving for retirement to take advantage of its inflation-resistance alongside the tax advantages of an IRA.

If you're considering bitcoin for retirement, it's important that you first spend time learning about what bitcoin is and how to best acquire and secure it. With a modest investment of a few hours up front, you can ensure you'll never be in a position where you're breaking tax rules, becoming a forced seller, or find yourself exposed to unnecessary counterparty risk.

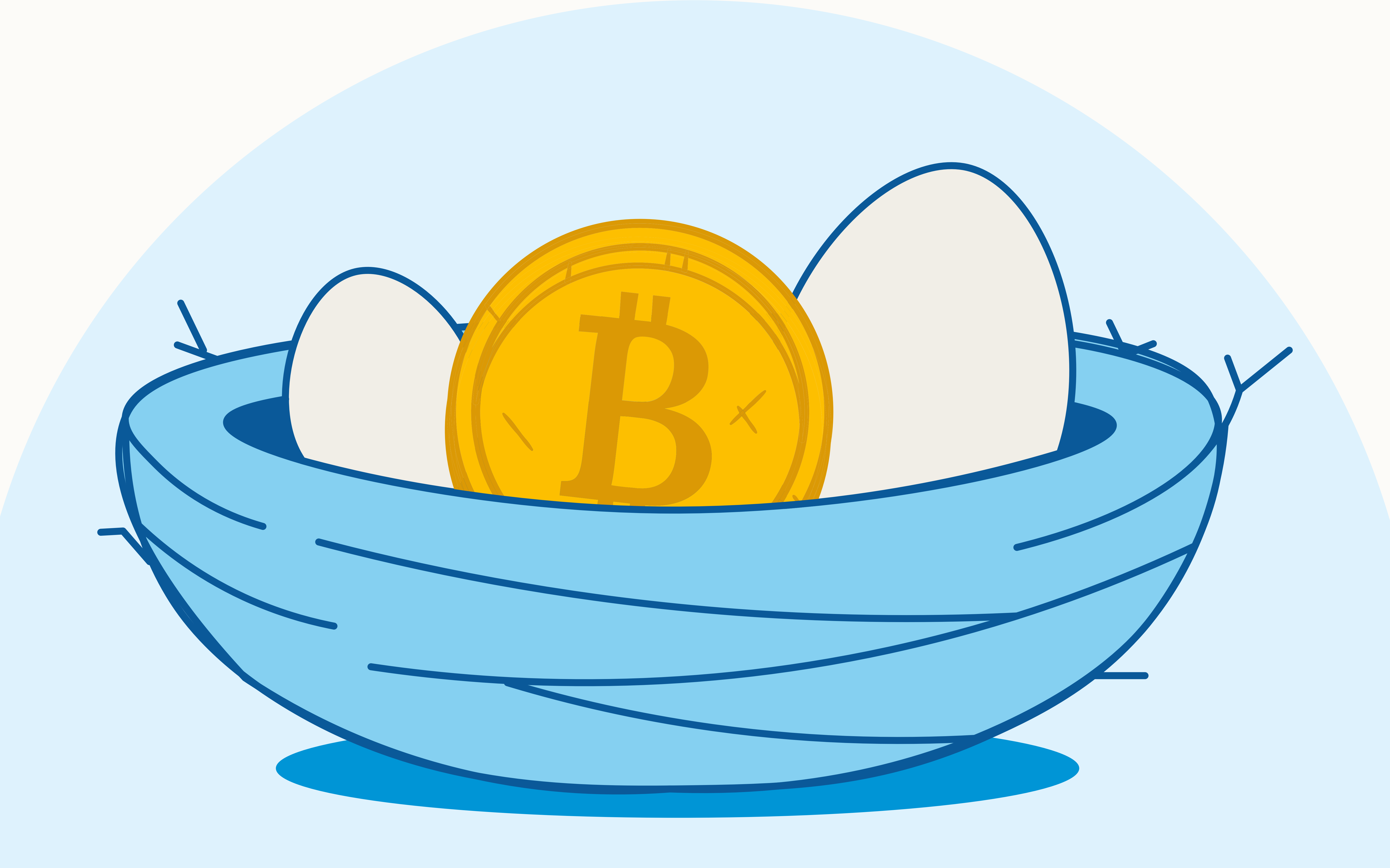
Introducing bitcoin into an IRA framework presents unique opportunities and challenges, because bitcoin is a unique asset class with unique properties.

Understanding how bitcoin's unique properties interact with an IRA requires exploring many questions you might already be asking:

- What is an IRA?
- What's so special about a bitcoin IRA?
- Should I consider holding bitcoin in an IRA?
- What kind of IRA is best for holding bitcoin?
- Can I control the keys to my IRA bitcoin?
- Is it legally sustainable to hold bitcoin in an IRA?
- What happens to my retirement bitcoin when I die?

Combining the long-term investment philosophy of retirement savings with the potential high-growth monetization of bitcoin is a rare opportunity. In this handbook, we'll address everything you need to know about IRAs and holding bitcoin in them for retirement.

II. Individual retirement account (IRA) basics



Grasping the basics of Individual Retirement Accounts (IRAs) is essential for effective retirement planning, regardless of whether you're interested in bitcoin IRAs specifically. As employer-sponsored pensions and other retirement plans wane, IRAs will enable you to leverage the tax advantages afforded to long-term savers and capture the maximum value from the growth of your investments.

We use the term "bitcoin IRA" throughout this handbook, but it's important to note that this is not a type of IRA from the IRS' perspective, but rather any one of the many kinds of IRA types described in this section that holds bitcoin within it. Before we talk about bitcoin IRAs specifically, we'll provide some context and discuss the basics of IRAs in the United States.

What is an IRA?

An IRA, or individual retirement account, is a tax-advantaged retirement savings account held by an individual that is not tied to their employer.

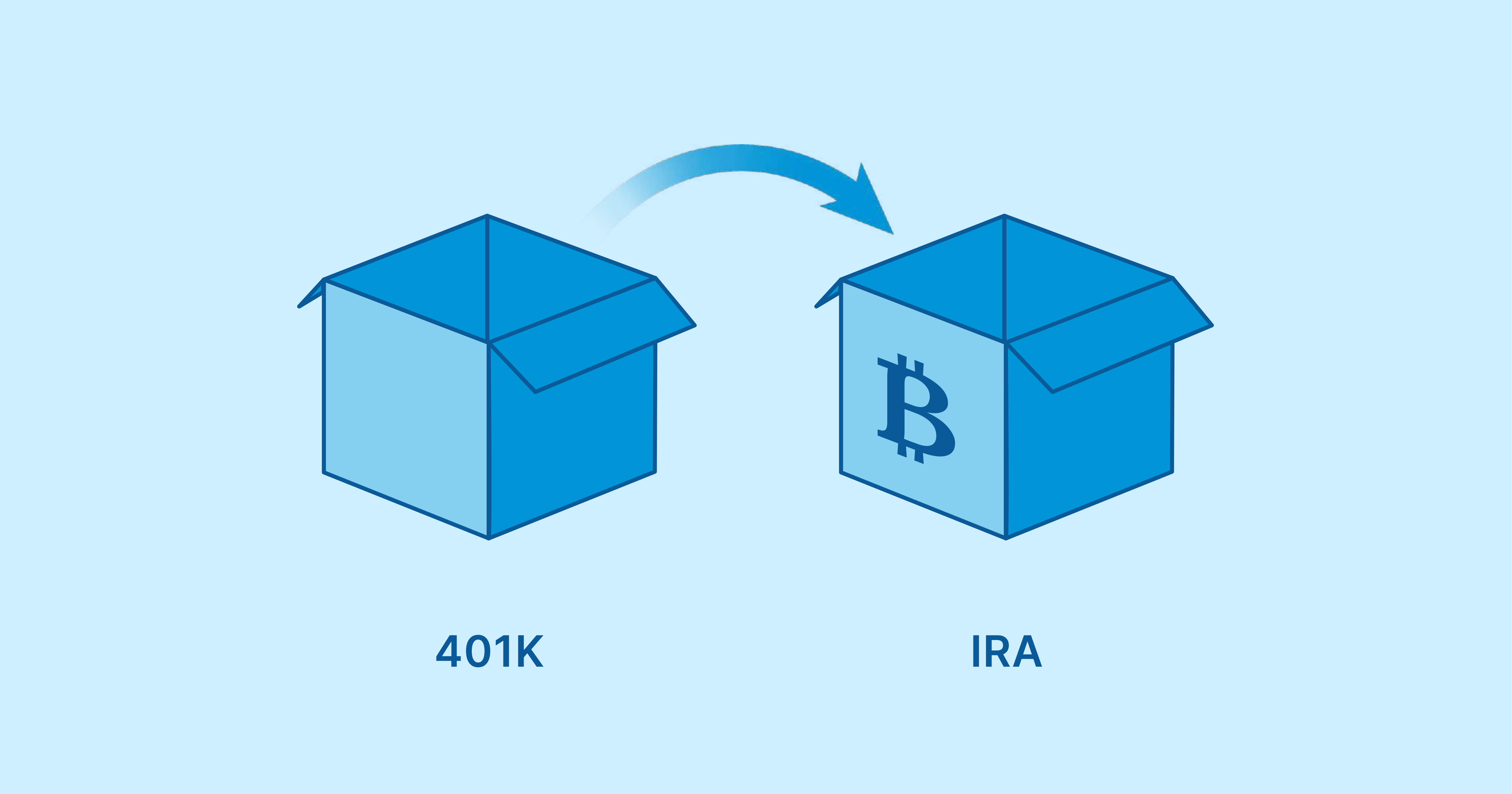
IRAs can be established independently with annual contributions, but most commonly, funding for an IRA happens when someone leaves their employer. Separation from employment allows an individual to "roll over" the balance out of their workplace retirement plan (typically a 401(k), 403(b), 457, or TSP) into an IRA.

The point of an IRA is to be a vehicle for retirement savings, and for that reason, there is a 10% penalty for withdrawals taken before a certain age, typically 59.5. Any withdrawals before that age are usually subject to a 10% penalty plus any applicable income tax. That said, there are some exceptions, so always check with your tax advisor.

Tax is postponed to when funds are withdrawn from the IRA itself (and even then, in the case of a Roth IRA, there should be no tax if the requirements are met), so IRAs have an added benefit of purchases and sales of assets within an IRA being tax-free.

What are the different kinds of IRAs?

Taking a closer look, it's important to understand the difference between various IRA types. The type of IRA you choose has tax implications to consider regardless of whether you hold bitcoin or some other IRA-allowed asset. The two most common types are traditional and Roth IRAs.



Rolling over former employer-sponsored plan to an IRA is one of the most common ways IRAs are funded.

Traditional IRA

A Traditional IRA is funded pre-tax. That means you will get a tax break now, and after age 59.5, withdrawals from a Traditional IRA are generally taxed at ordinary income rates. These will usually be funded by a rollover from an existing Traditional IRA or 401(k). They are generally best-suited for people who expect to be in a lower tax bracket when they begin taking withdrawals or otherwise prefer tax benefits “up front” rather than in the future. Contributions to Traditional IRAs give you current-year tax benefits because they are tax-deductible.

Roth IRA

A Roth IRA is funded post-tax. That means if you meet certain age and other requirements, withdrawals from a Roth IRA after retirement age are generally free of all taxes. Roth IRAs will usually be funded either by a rollover from an existing Roth IRA or Roth 401(k) or by a “Roth conversion” of non-Roth retirement funds. They are generally best-suited for people who expect to be in a higher tax bracket when they begin taking withdrawals. Unlike Traditional IRAs, Roth IRA contributions offer no current-year tax benefits as they are not tax-deductible.

As mentioned, you can convert a Traditional IRA to a Roth IRA. The conversion will be subject to income tax, but will be exempt from the usual 10% penalty on early distributions. We’ll talk about conversions in more detail in later sections of this guide.

	TRADITIONAL IRA	ROTH IRA
FUNDED	PRE-TAX	POST-TAX
CONTRIBUTION LIMITS FOR 2024	$7,000 ($8,000 FOR 50+)	$7,000 ($8,000 FOR 50+)
TAX-DEDUCTIBLE CONTRIBUTIONS?	YES	NO
IDEAL IF YOUR TAX RATE IS	LOWER IN RETIREMENT	HIGHER IN RETIREMENT
INCOME LIMITS	NONE	$161,000 SINGLE, $240,000 MARRIED FILING JOINTLY
WITHDRAWALS BEFORE RETIREMENT	10% PENALTY	CONTRIBUTIONS PENALTY-FREE, OTHERWISE 10% PENALTY

What about SEP and SIMPLE IRAs?

If you are self-employed, you may be able to contribute up to 20% of your "net self-employment earnings" with a maximum of $61,000 (the maximum for 2022, although this changes annually) to a SEP IRA.

A SIMPLE IRA is a special type of group retirement plan for small employers that has declined in popularity over the years. You can usually roll any balance from a SIMPLE IRA into a bitcoin IRA tax-free. However, SIMPLE IRAs do have a special rule that rollovers are not allowed during the first two years of the account's existence.

Choosing the right IRA type for you

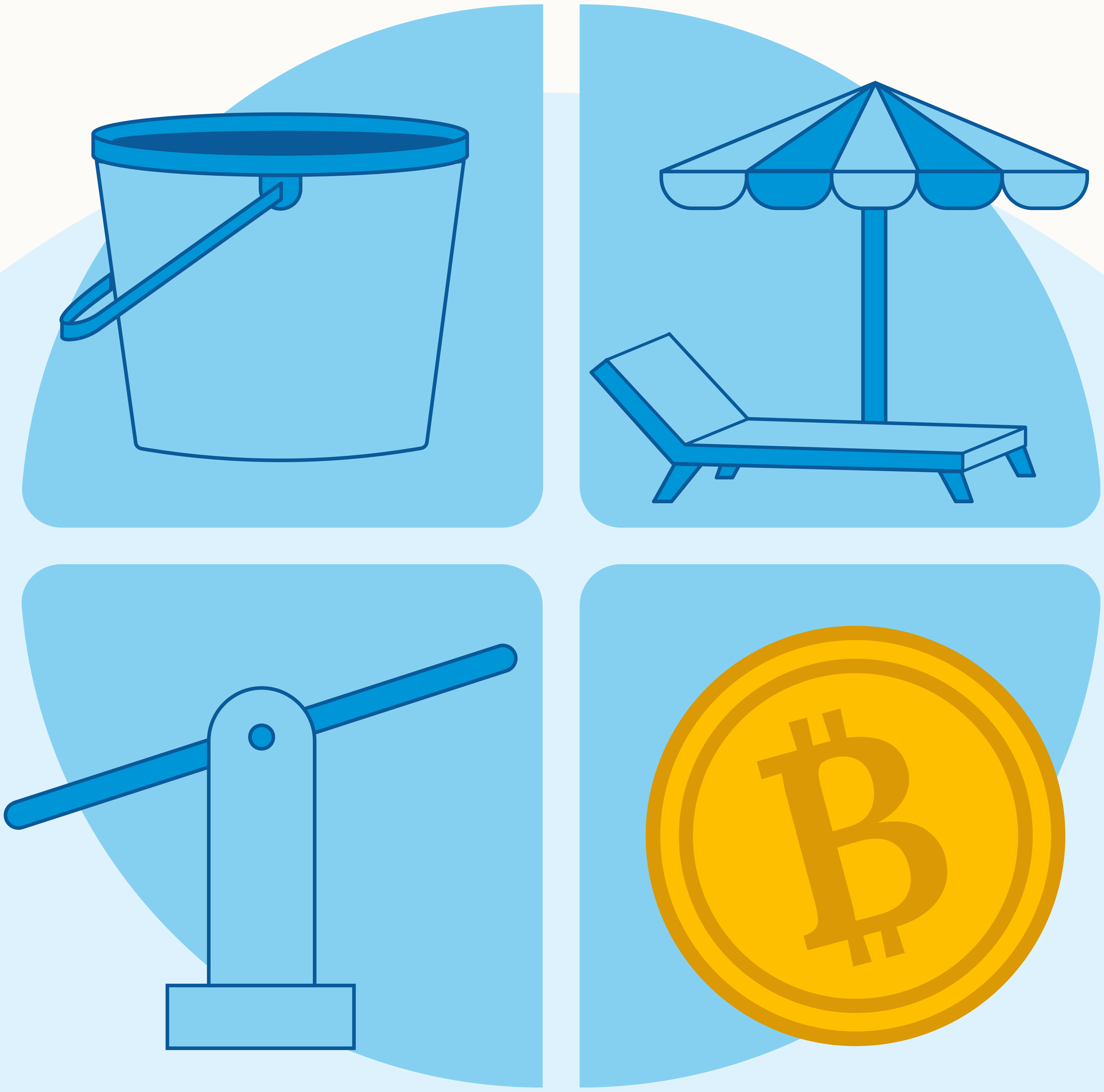
You should choose an IRA type in consultation with a qualified tax advisor. That said, many bitcoin holders anticipate both relatively high tax rates in retirement and for bitcoin to see outsized returns over the course of their pre-retirement years. For these reasons and others, the Roth IRA is an increasingly popular tax-advantaged vehicle for holding bitcoin retirement savings.

Here's the high-level summary:

- Roth IRAs are tax-free forever, even when you withdraw in retirement, so long as you meet some basic requirements—as bitcoin's value grows, your taxes do not.
- All transactions within a Roth IRA avoid tax—there's no need to track tax basis
- Access to contributions before retirement age are tax penalty-free, meaning they're accessible in a pinch
- There are no required minimum distributions—you can hold your bitcoin forever and pass it tax-free to heirs

The next section will hopefully paint a crystal clear picture for why holding bitcoin in a Roth IRA is becoming an increasingly popular means to minimize taxes on bitcoin appreciation.

III. Should you hold bitcoin in an IRA?



Whether you're young, mid-career, or playing the back nine, IRAs can be an important tool for your financial goals. The four case studies contained herein will illustrate how by combining IRAs with bitcoin, you can save for retirement, optimize for your personal tax situation during retirement, and leave your bitcoin for the next generation.

These are hypothetical case studies based on our experiences—not real people. They're intended to help you better understand how bitcoin IRAs can fit into many types of retirement plans. Hence, they're for educational purposes. As always, you should discuss all personal situations with a financial, tax, or legal expert.

I. The super stacker: Saving for retirement

Stephanie is in her early 30s and understands bitcoin's value proposition. Stephanie views bitcoin as the best savings technology given today's current macroeconomic backdrop and bitcoin's fixed supply of 21 million, and is committed to a disciplined accumulation strategy. She's looking for a way to save her hard-earned money without suffering debasement over time.

Ultimately, she would like to use her savings for major goals: a dream vacation, a house, starting a family, and maybe retiring someday.

But retirement is a distant goal, and she thinks the United States could go through some significant changes before she's ready to settle down. Why would she even bother with the fiat-based American retirement system? The rules, limits, penalties, and potential changes aren't worth it. Just keep your head down and stack sats, right? Not so fast, Stephanie.

The importance of tax-free growth

Like most bitcoin owners, Stephanie is stacking bitcoin with money that has already been taxed. Her payroll taxes are withheld on payday, and she is paid the remaining U.S. dollars into her bank account. She then sends money to an exchange and purchases bitcoin. This is the typical way most people stack sats—post-tax.

However, just because the bitcoin is purchased post-tax does not mean it won't be taxed again. Non-retirement bitcoin earnings are taxed as a capital gain when sold.

Over her years of stacking, she will need to keep track of her cost basis and deduct that amount from the gross proceeds when selling.

It's a simple formula: (final trade) minus (what you paid) equals (what you made). What you make is taxed as capital gains.

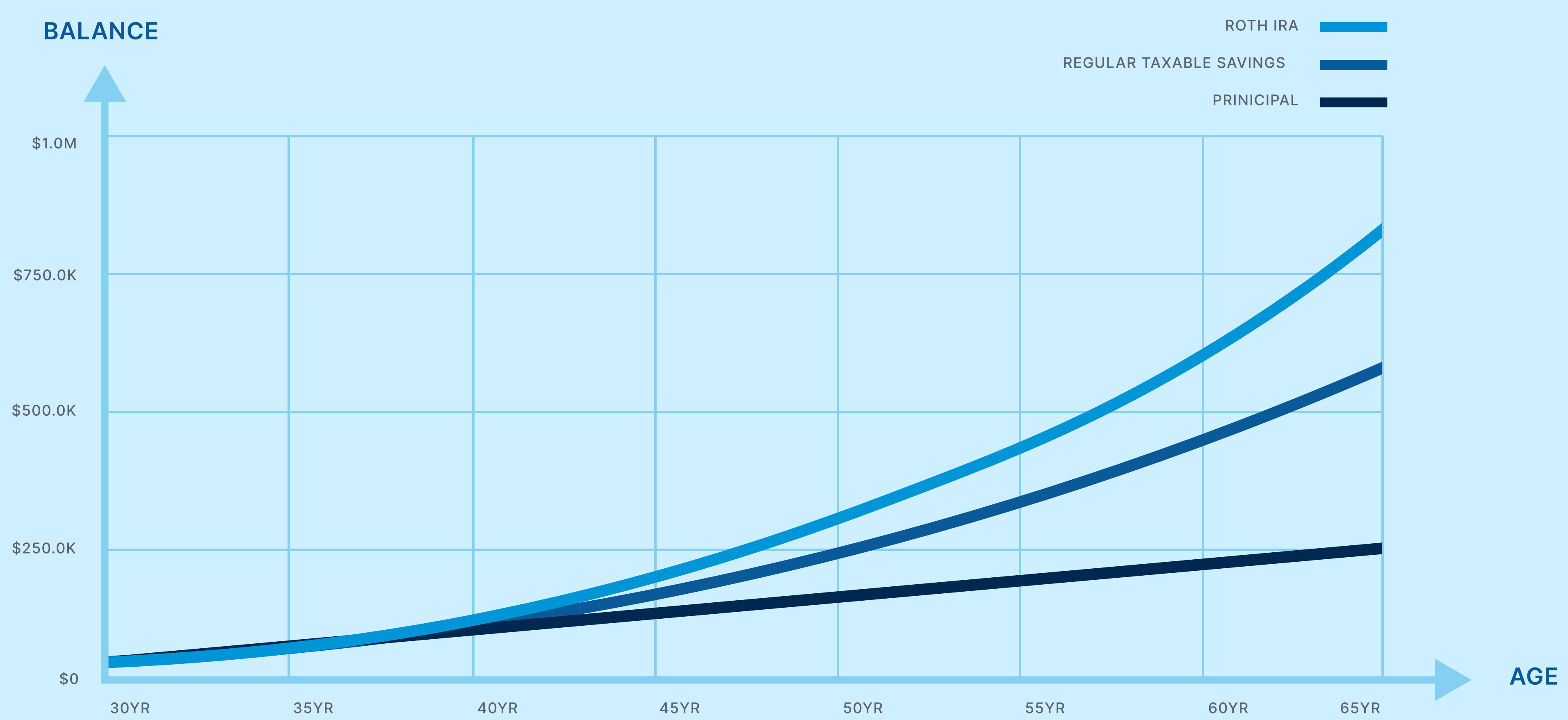
Enter the Roth IRA

This is where a Roth IRA savings vehicle adds value. If Stephanie were to contribute to a bitcoin Roth IRA, contributions would still be made post-tax—same as before.

But the key difference is that qualified Roth IRA distributions are tax-free. She only pays tax once, not twice.

The potential implications of tax-free bitcoin are massive. If the dollar value of bitcoin exponentially increases as Stephanie expects, then reducing her potential tax burden becomes increasingly rewarding.

Let's assume she starts saving $6,000 per year at age 30 until she reaches age 65, and bitcoin grows at 6% annualized (feel free to plug in your own assumptions). At age 65, she will have accumulated $822,330. And if she had to pay an estimated 20% capital gains tax, it would amount to a bill over $117,000.



BITCOIN BALANCE GROWTH

In this scenario, a Roth IRA saves her more than $117,000. The Roth becomes a vehicle to supercharge future purchasing power without changing her current taxation. Not having to pay tax on future gains has an exponential impact over time.

Not just retirement: Withdrawing contributions

Four years into maximizing her bitcoin Roth IRA contributions, Stephanie has contributed $24,000 (four years of $6,000 max) and experienced a rapid increase in bitcoin price—a common experience for many bitcoin holders. Let's assume a hypothetical balance of $100,000. To celebrate and reward herself, she has planned a Miami vacation. However, she can't decide if she should sell her non-retirement bitcoin and pay gains tax or take it from her retirement account and pay penalties.

With penalty-free access to Roth contributions, Stephanie can take up to $24,000 (her total contributions) out of her Roth without incurring penalty or tax. In this imaginary scenario, let's say she ends up pulling $10,000 from the Roth for her Miami vacation.

More ways to maximize a Roth

If Stephanie meets someone in Miami, she could pull $10,000 more from the Roth for an elopement wedding. And the house with the picket fence? The Roth allows for some flexibility in that, too: Roth IRAs allow for up to $10,000 of earnings to be withdrawn penalty-free if used for a first-time home purchase. With $4,000 of contributions left and an additional $10,000 in earnings for the first-time home purchase, Stephanie could combine forces with her equally-wise new spouse—who was also contributing to a Roth—and compile $24,000 for a down payment.

After the tax- and penalty-free spending spree has subsided, she and her spouse can continue to regularly contribute again, saving for the next big goal, and ultimately for retirement.

Super stacker takeaways

The Roth account has more flexibility than just saving for the classic age 59 ½ retirement scenario. Tax-free growth is a powerful tool to grow wealth over time and should be strongly considered for any retirement plan. You can pull contributions tax- and penalty-free at any time, and earnings are tax-free at retirement age.

Certain conditions even allow you to pull earnings from your Roth without a penalty.

II. Retirement ready: Entering retirement

Robert has been diligently preparing for retirement. He's mentally there, but financially not ready to take the leap. Still, bitcoin has become an increasingly important position in his portfolio. What started as a hedge (1-2%) has become a core component (10%+). He holds some bitcoin directly but has more exposure through bitcoin-adjacent assets (GBTC, MicroStrategy, mining stocks, etc.).

He's not ready to go all-in on bitcoin because, although he believes in its importance, the volatility conflicts with his desire for financial stability during retirement. He has worked hard to earn his nest egg and would hate for it to disappear—especially to taxes. Within the next 5-10 years, he will transition out of his career and live off his 401k, investment account, real estate equity/income, and bitcoin. Any social security or pension are just a bonus.

Brackets and buckets

Robert needs to dive into his financial situation and see how his tax brackets will look. What will they look like the Monday morning after he retires? What will they look like after the pension or social security start? What about when the 401k required minimum distributions start at age 72? Knowing where the money is coming from, when it occurs, and how it's taxed are critical components to retiring—and staying retired. To make a plan, Robert needs to think about each account type as being in a different "tax bucket." His taxable assets are taxed upon sale, and his tax-deferred accounts are taxed when he takes income from them. The Roth provides another bucket: tax-free income. If Robert were to add a Roth IRA, he could pull from different buckets depending on the plan and the need.

For example, Robert can pull from the Roth in high tax years and keep his bracket from climbing too quickly. He can pull from taxable or Traditional IRAs in low tax years and accelerate that income at a lower marginal rate. More sophisticated strategies could include conversions, delaying income, gifting taxable assets, etc.

The key point: Roth allows for diversification in "tax buckets" to optimize your tax bracket in retirement.

When Robert adds this tax-free bucket to his picture, he decides to fill it with high risk/reward assets like bitcoin. If the growth is tax-free, then it makes sense for it to grow as much as possible. He decides to sell his mining stocks, GBTC, and MSTR and convert that cash into a bitcoin IRA (preferably one where he controls access to the keys).

Retirement takeaways

What did your bracket look like this year? No, not the March Madness one. The un-fun IRS one. All retirees must consider their expected tax bracket throughout retirement, and tax bracket management is a science and an art. Specifics vary from person to person, but the main concept applies: The more diversified your "tax buckets," the more flexibility and optionality you will have in any tax environment.

III. Leaving a legacy: Inheritance

Larry has been enjoying his time with his wife and grandchildren. He had a successful career and profitable investments that have sustained his lifestyle through retirement. Now, he thinks much more about the next generation and the challenges and struggles they will face. He wants to protect those he cares about and leave the world a better place.

At first, bitcoin didn't make sense to him. He thought it was just another get-rich-quick scheme. But given the state of the world today and institutional financial foolishness taking place, he's now open to seeing its long-term potential. Larry's main goal is to leave bitcoin for the kids and grandkids. He thinks it could become meaningful for their future when he's no longer with them.

Inheritance and estate considerations

When Larry sets up a Roth IRA, he does not ever have to take Required Minimum Distributions from that account. He can leave the assets there to grow tax-free for the long term—perfect for bitcoin. Larry can easily add or modify beneficiaries to that IRA at any time, and beneficiaries will receive the Roth income tax-free upon his passing. He can accomplish his goal of passing bitcoin to his loved ones. (Estate taxes may still apply, Roth IRAs only avoid income tax.)

Converting to a Roth IRA

Larry was already retired when the Roth IRA came out in 1997, so he doesn't have an existing Roth, and you need earned income to contribute. But even though he can't add money directly to one, he can consider a Roth conversion.

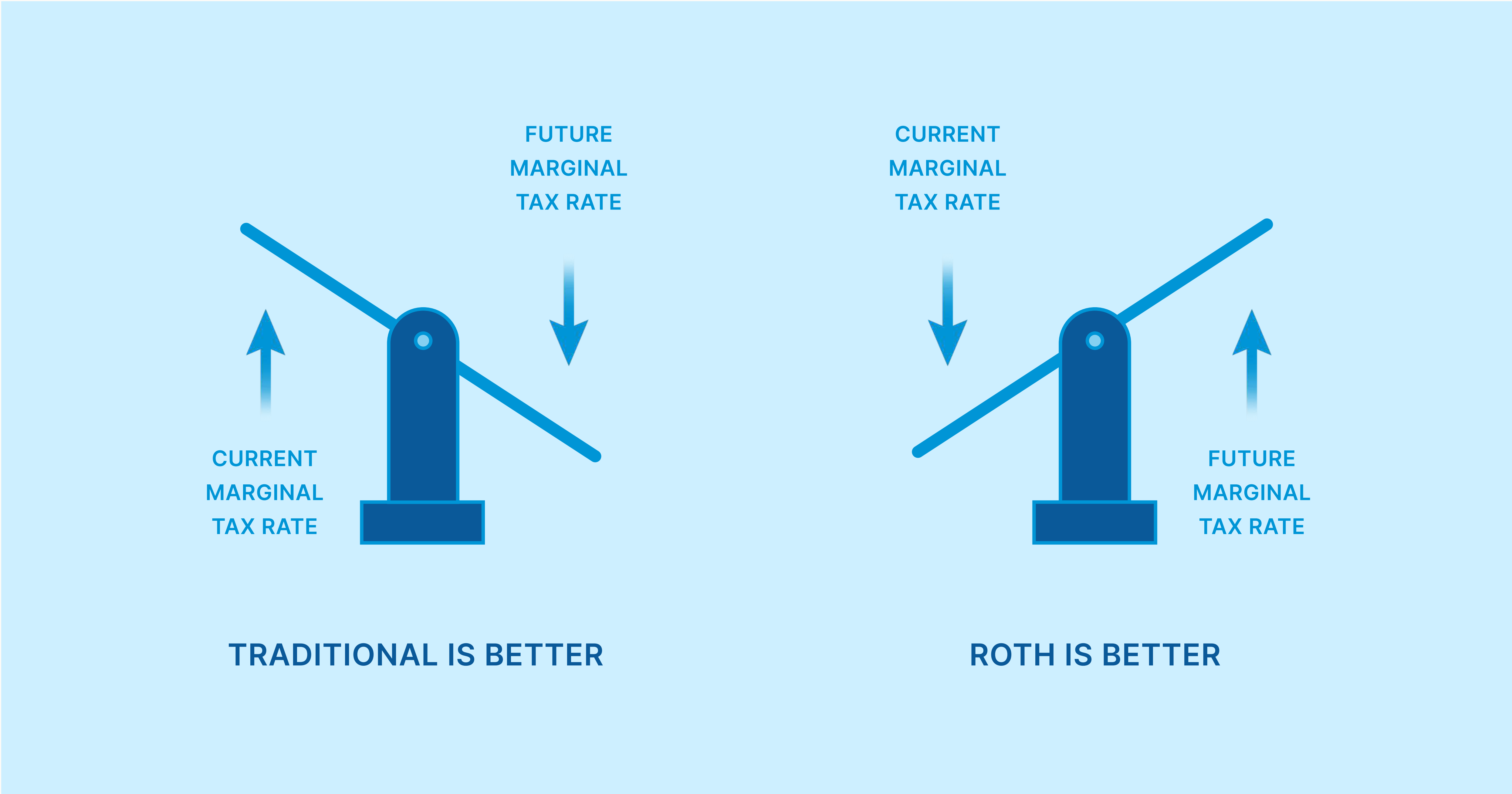
He can take pre-tax 401k/IRA funds and convert them to Roth, allowing him to pay the tax now and turn it into a tax-free vehicle for future generations. As to whether this is a good idea for your beneficiaries, the math is fairly simple: if you expect your tax rate to be lower than your beneficiaries' tax rate, then the Roth would make more sense.

Legacy takeaways

Larry has optionality. If the math makes sense, he could turn a portion of his portfolio into a bitcoin Roth IRA and leave the asset for future generations. It's worth noting that holding your own keys in an Unchained IRA requires that you also do proper inheritance planning.

IV. "Why Would I?": Reasons not to Roth

Wayne is in his peak earning years and making really good money at his fiat job. He lives a simple life enjoying a lot of time outdoors, and expects not to need much income after he retires. He has many hobbies, one of which is mining bitcoin with a few machines from his home. It's not a large-scale operation—just a hobby—but he would consider mining bitcoin with his retirement account if that were an option. Ultimately, he plans to leave all assets he owns to charities that he cares about.



Source: When A Roth IRA May Actually Be A Terrible Asset To Inherit (Kitces)

Brackets and buckets pt. 2

Revisiting the brackets and buckets discussion from above, Wayne's current income (high bracket) is much greater than his expected future income needs (low bracket). If he were to convert any of his existing retirement assets to Roth, he would be paying a higher rate than if he had just waited to pull it in retirement. From this perspective, it may be wiser to keep the assets in a Traditional pre-tax account and not convert to Roth.

Death and taxes...

As Wayne considers a Roth IRA, he should note Roth IRAs do not avoid the estate tax, only the income tax. Wayne plans to leave all assets to charity. Assets left to qualified non-profit entities would avoid both estate and income tax. In his case, there is no benefit to the Roth over his current structure from a taxation-at-death as Wayne considers a Roth IRA, he should note Roth IRAs do not avoid the estate tax, only the income tax. Wayne plans to leave all assets to charity. Assets left to qualified non-profit entities would avoid both estate and income tax. In his case, there is no benefit to the Roth over his current structure from a taxation-at-death standpoint.

If it goes to charity, it avoids the death tax—a silver lining to say the least.

Mining in a Roth?

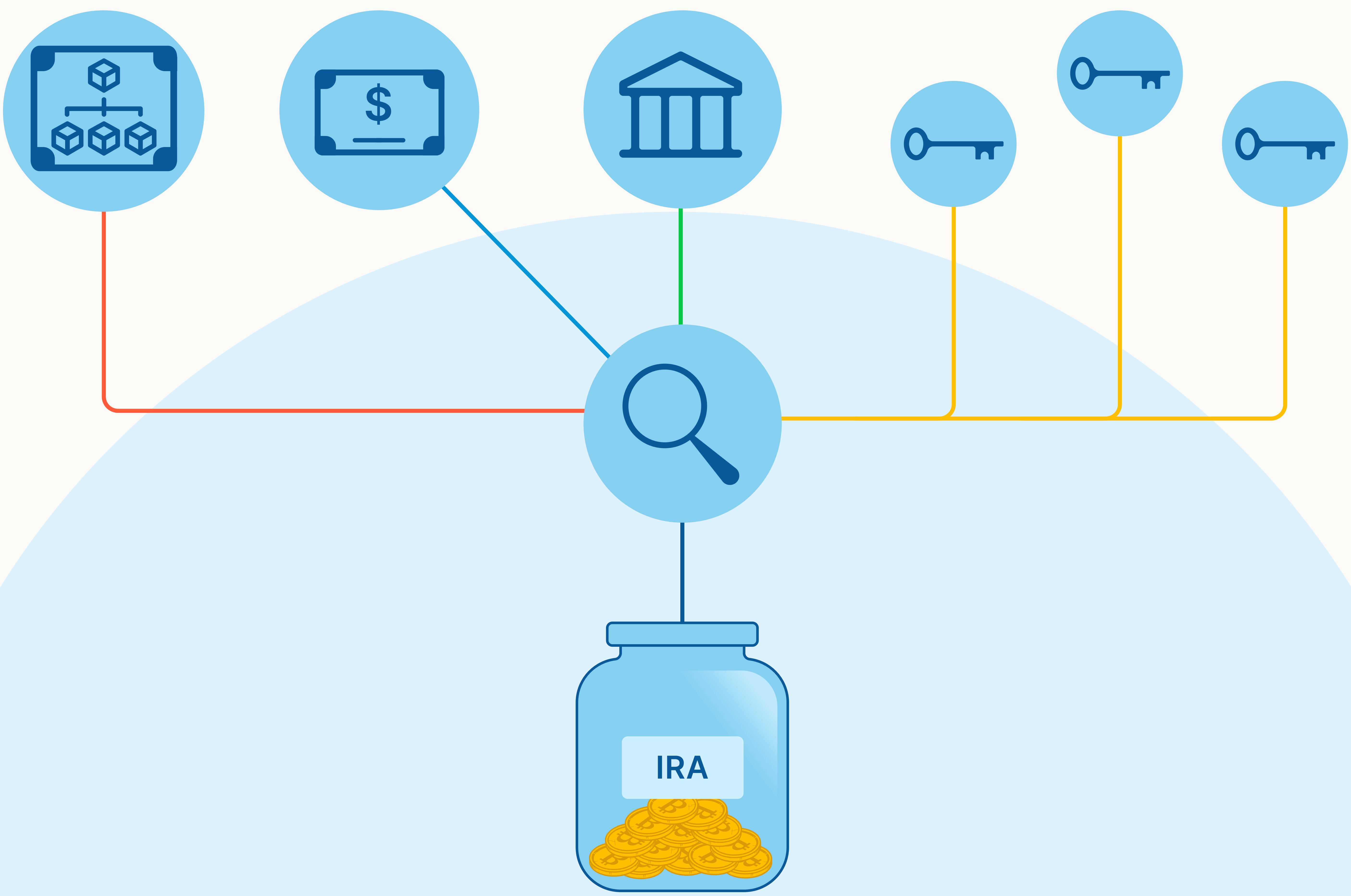
Now, let's re-introduce Wayne's bitcoin mining hobby. Mining bitcoin within an IRA is technically possible but highly advised against for the average investor. He should be aware of the tax nightmare often involved and consult a tax advisor regarding UBIT (Unrelated Business Income Tax) within IRA accounts. Additionally, if Wayne wants to hold his mined bitcoin without revealing personal information to a financial institution, Roth IRAs simply aren't an option.

Why? takeaways

When considering a financial strategy, no single tool works for every individual's situation. Factors such as tax bracket, net worth, and charitable intent are all relevant considerations when evaluating a Roth IRA. Mining doesn't tend to be well-suited for bitcoin IRAs because of UBIT. Due to these factors, a Roth IRA may not be the right route for Wayne. See **Appendix A** for a more detailed explanation of mining in a bitcoin IRA.

Unchained

IV. Bitcoin IRAs compared



There are many different ways to approach holding bitcoin in an IRA, and as with everything in bitcoin, each has its trade-offs. Let's look at how the many different bitcoin IRA approaches compare.

I. Sovereignty and appreciation

Before we can cover these approaches to bitcoin retirement savings, you have to understand the two most important benefits you receive by holding bitcoin: financial sovereignty and purchasing power. That is, the freedom you gain from holding the private keys to a digital bearer asset that exists outside the traditional financial system, and the appreciation of that asset as measured in fiat terms.

The four most common approaches to holding your bitcoin in an IRA have different trade-offs related to these two benefits, as you can see below. Considering just these basic trade-offs, it's hopefully already clear why bitcoin IRAs with key control are a strong option.

Beyond these two factors, the other differences are a bit more nuanced. Let's take a closer look at the details.

	SOVEREIGNTY	PRICE APPRECIATION
BITCOIN FUTURES ETF	NO CONTROL OF KEYS	INDIRECT EXPOSURE TO PRICE
BITCOIN SPOT ETF	NO CONTROL OF KEYS	MOSTLY DIRECT EXPOSURE TO PRICE
BITCOIN IRA WITHOUT KEY CONTROL	NO CONTROL OF KEYS	DIRECT EXPOSURE TO PRICE
BITCOIN IRA WITH KEY CONTROL	FULL CONTROL OF KEYS	DIRECT EXPOSURE TO PRICE

II. Four ways to hold bitcoin in an IRA

Bitcoin futures ETF in a brokerage IRA (BITO)

One previously-popular way to get exposure to bitcoin with minimal effort was with a futures ETF like ProShares Bitcoin Strategy ETF (BITO). This fund intends to offer investors managed exposure to bitcoin futures. Futures are financial contracts that require involved parties to perform a transaction at a given future date and price. You get no key control—a futures ETF like BITO doesn't even hold physical bitcoin itself. BITO is still available, but its popularity has declined since the launch of bitcoin spot ETFs in 2024.

Bitcoin spot ETF in a brokerage IRA (IBIT, FBTC, GBTC, etc.)

Bitcoin spot ETFs launched in 2024, giving investors access to a bitcoin-proxy financial product with far more direct exposure to bitcoin's price than the previous futures and trust products. Like bitcoin trusts and futures ETFs, you do not have key control over any physical bitcoin with these products. However, spot ETFs do themslevs hold physical bitcoin with custodians like Coinbase, Fidelity, and Gemini. They track the price of bitcoin closely because authorized participants have the right to create and redeem shares of the ETF, keeping price in line with its net asset value.

Bitcoin IRAs without key control (iTrust Capital, BitcoinIRA)

Many bitcoin IRA products allow you to buy real bitcoin but don't offer any key control, like iTrust Capital, BitcoinIRA, Swan Bitcoin IRA, and others. Like the bitcoin proxy products, these products provide no control over your private keys. The largest benefit is that you get direct exposure to the price of bitcoin because physical bitcoin is held on your behalf. In these products, bitcoin is titled to you and in some cases it is possible to send it in-kind if you change IRA providers. You may also have more flexibility with trading options compared to a spot ETF.

Bitcoin IRAs with key control (Unchained IRA, Choice)

Key control is important for various reasons, but it's all rooted in bitcoin principles more broadly. Bitcoin allows you as an individual to custody your wealth in a way that was never possible before. If you don't hold your keys, you ultimately hold a bitcoin IOU, and the key holder can make arbitrary decisions like change associated fees, rehypothecate, and more. Another often-ignored component is that companies holding your keys can fail; you become an unsecured creditor if a company becomes insolvent.

There are bitcoin IRA products on the market that offer complete control of your bitcoin private keys and direct exposure to the underlying asset's price movement. With these products, you eliminate single points of failure by controlling the keys to your physical bitcoin held in a multisig wallet. One of these products is the Unchained IRA.

III. Bitcoin IRA comparison

Convenience

Holding bitcoin proxies like the spot ETF in your preexisting IRA account will be the easiest way to get exposure to the bitcoin price. It's as simple as typing in a ticker symbol and buying the product, as long as your brokerage offers it. If you're new to bitcoin and want to experiment with exposing your portfolio, the spot ETFs also let you easily trade in and out of your position at will—albeit only during market hours. As many trade-offs as these products have, they win this category.

No-key-control bitcoin IRA products are the clear runner-up for convenience since you don't have to consider key management practices while still getting direct exposure to the bitcoin price.

Price correlation

If you're holding a bitcoin proxy like a spot ETF in a brokerage account, you aren't holding real bitcoin, but you are still holding a well-engineered financial tool that correlates well with the bitcoin price with minimal slippage. Still, the spot ETFs aren't perfect—nothing will do better than holding bitcoin itself when it comes to price correlation. Whether you hold the keys to your bitcoin or not, products that allow you to hold physical bitcoin will track the price of the underlying asset, which is preferable for most investors.

Counterparty risk

Products like the spot and futures ETFs, as well as the no-key-control IRAs, don't offer you the benefit of key control, which means you're exposing your wealth to many layers of counterparty risk. For the spot ETFs, for example, you're trusting the custodian (likely Coinbase, Fidelity, or Gemini), the ETF issuer itself, and the broker where you have a retirement account.

Another side effect of these proxy products and no-key-control IRAs is that you may eventually have to sell and take a distribution in U.S. dollars.

With bitcoin IRAs with key control, you can withdraw real bitcoin from your account without penalty at retirement age. As the world shifts to a bitcoin standard, you may not need or want to sell it back to fiat when the time comes. The adage of old remains true: "not your keys, not your bitcoin." The bitcoin protocol was built to give you the opportunity to take control of your wealth. Controlling your keys minimizes counterparty risk and eliminates single points of failure.

Cost

The cost spectrum across all the bitcoin IRA products is broad, as is the value you receive.

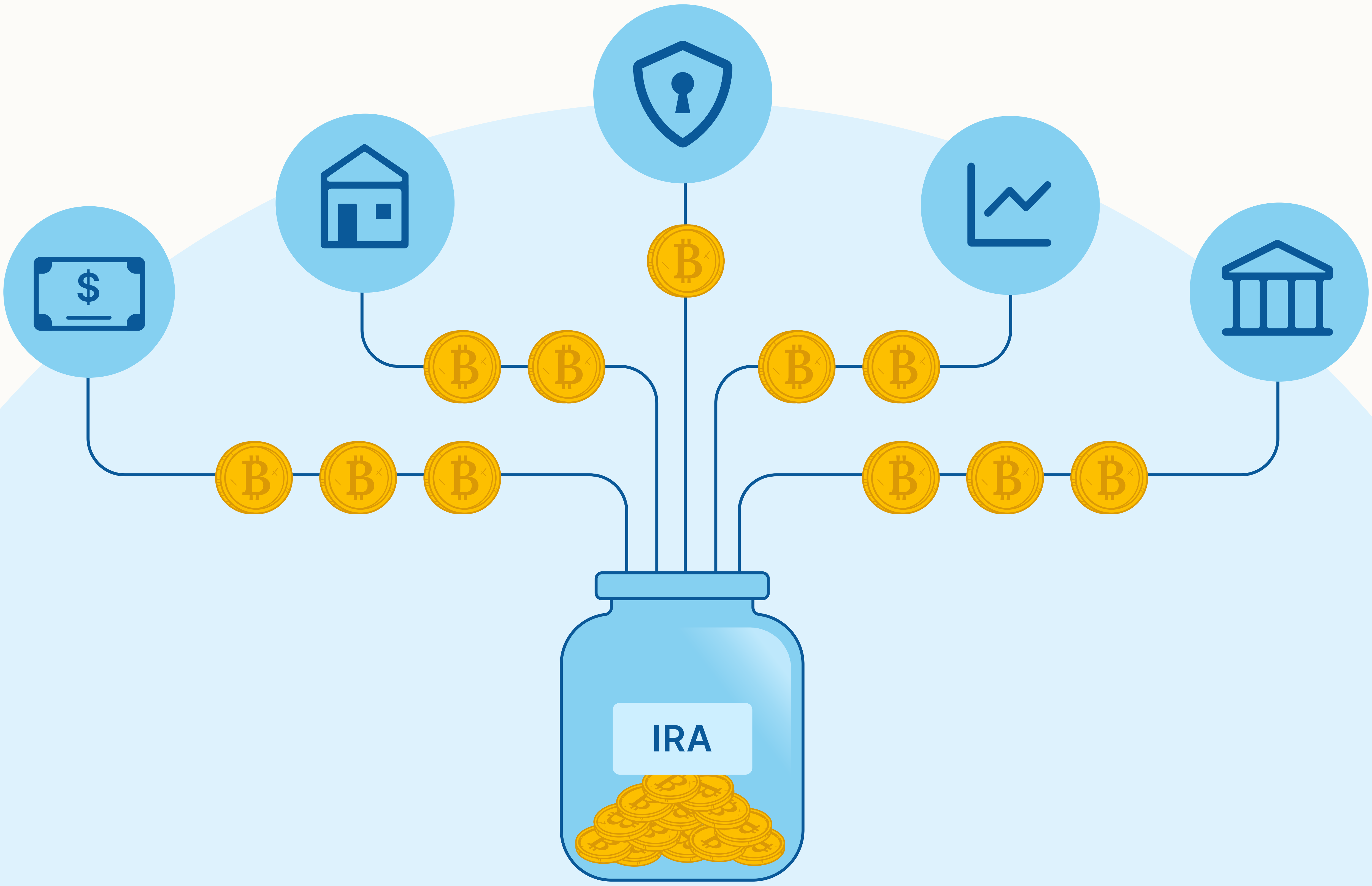
The spot ETF products are relatively affordable—charging as little as 0.2% (or 0% during promotional periods), which is far better than the hefty 1-2% that you'd pay for the convenience of GBTC or BITO before the spot ETFs were available. Still, the annual fees on spot ETFs can add up to tens of thousands of dollars, depending on your holdings and the appreciation of bitcoin.

Among the bitcoin IRAs that don't offer key control, iTrust Capital is currently the most affordable approach to holding bitcoin in an IRA. On the other hand, competitors like BitcoinIRA are a bit more mysterious as to what their fees are—making it unclear how they compare on this front.

The Unchained IRA has a higher one-time setup fee, but lower annual fees and trading fees, leading to much lower fees over time.

	CONVENIENCE	PRICE CORRELATION	COUNTERPARTY RISK	COST
BITCOIN FUTURES ETF	HIGH	INEFFICIENT	HIGH	HIGH
BITCOIN SPOT ETF	HIGH	GOOD	HIGH	VARIES
BITCOIN IRA WITHOUT KEY CONTROL	HIGH	BEST	HIGH	VARIES
BITCOIN IRA WITH KEY CONTROL	FULL RESPONSIBILITY	BEST	MINIMAL	LOWER FEES OVER TIME

V. How to fund & maximize your bitcoin IRA



Roth IRAs can be powerful tools, but funding strategies can vary from person to person. To help you take advantage of tax-free bitcoin in a Roth IRA, we'll cover the four primary ways to get your money in the door—from simply making cash contributions (up to certain limits) to converting an old retirement account. As always, consult a tax advisor to verify your personal tax strategy.

Should I liquidate an old retirement account?

One of the most common questions we get relates to whether simply liquidating an existing IRA and buying bitcoin with the proceeds (outside of an IRA) is a reasonable approach. While you certainly can do that, this would generate income tax, as well as a 10% penalty. That can mean your overall bitcoin holdings could see a 40% reduction or more.

Assuming $50,000/BTC and a $100,000 retirement account, it would look like the figure below.

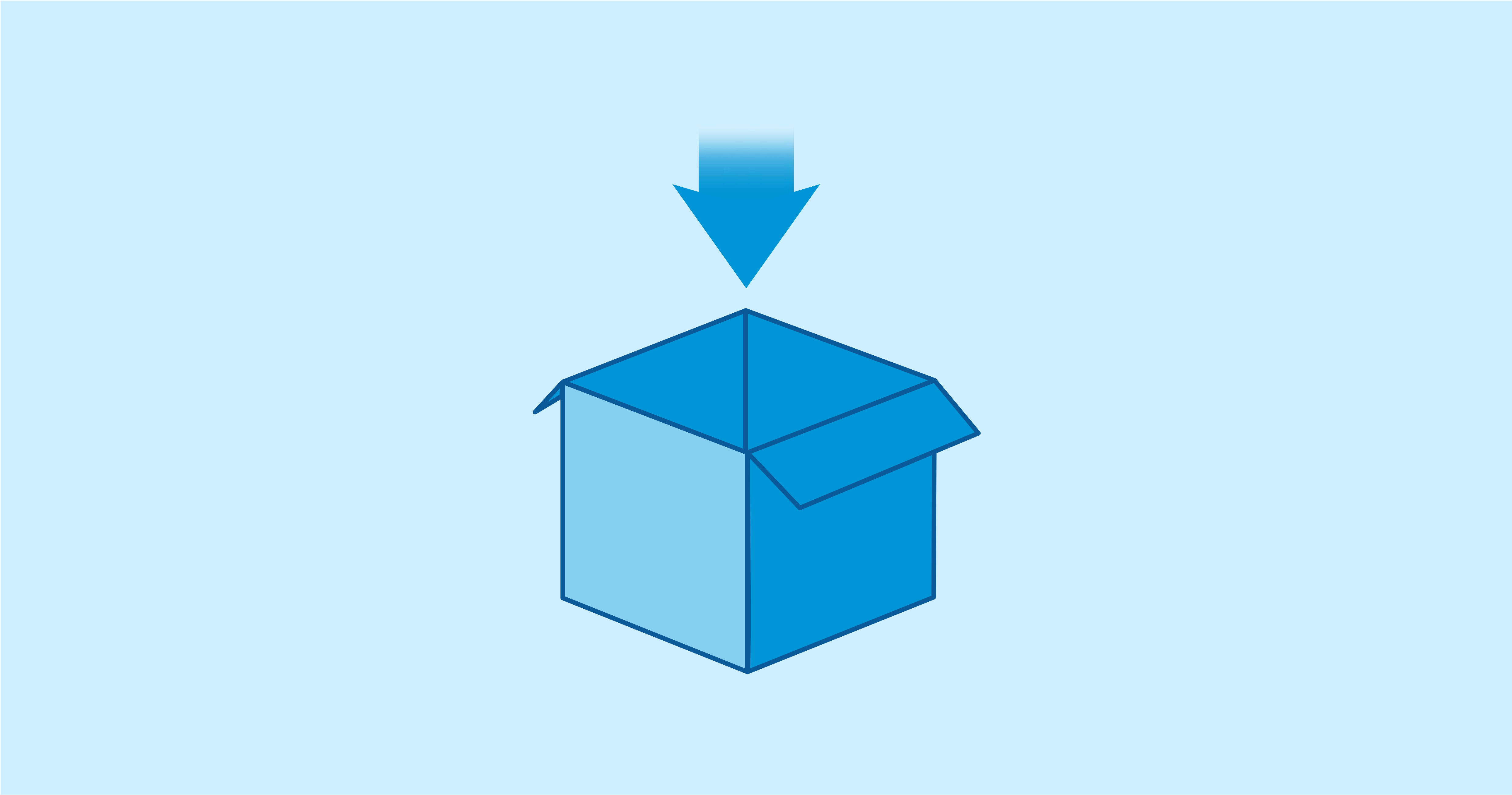
Rather than take this sub-optimal approach, you may prefer to learn how to deploy various funding strategies to maximize your contributions and minimize taxes and penalties.

	TOTAL BTC	TAX IMPLICATION
ROLLOVER FROM A TRADITIONAL IRA OR 401(K) TO A BITCOIN IRA	2	INCOME TAX DEFERRED
LIQUIDATE TRADITIONAL IRA AND BUY BITCOIN OUTSIDE OF AN IRA	1.2 (-.8)	INCOME TAX + PENALTY TODAY + FUTURE CAPITAL GAINS TAX

Four ways to fund a bitcoin Roth IRA

1. Direct contributions

If your income is below specific IRS-defined caps, you (and your spouse) are allowed to contribute directly into a Roth IRA up to the annual contribution limit. At the time of this writing, limits are up to $7,000 per person, with an additional $1,000 available for those over age 50. This is the most straightforward way to fund an IRA and can be a great way to stack bitcoin savings for the long term.



2. Roth conversions

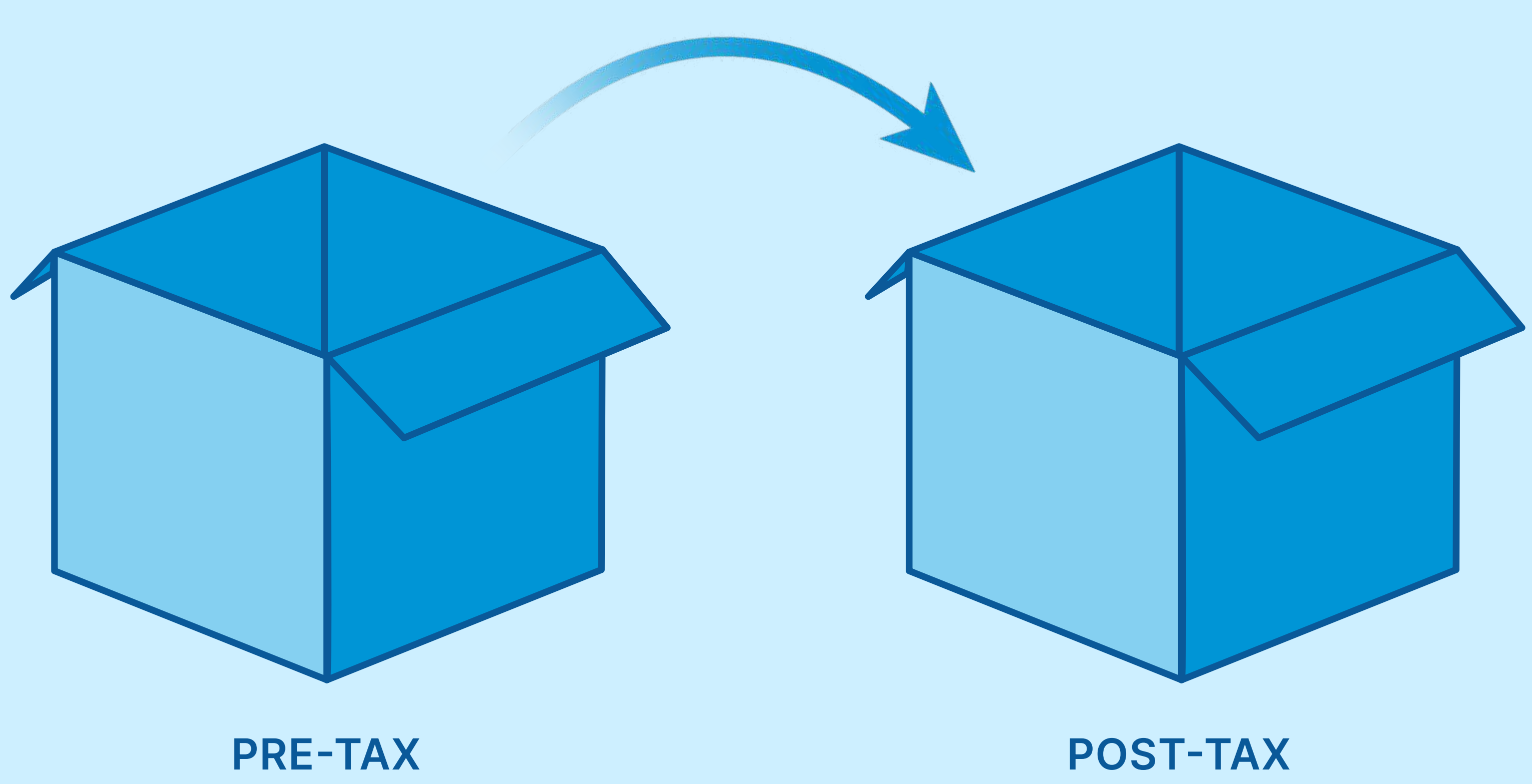
A Roth conversion allows you to convert your pre-tax retirement assets (such as Traditional IRAs, 401(k)s, and other non-Roth employer plans) into post-tax Roth assets—including bitcoin.

You have to pay income tax on the converted amounts, but you'll be eligible to make tax-free withdrawals from the account in the future. You can think of it as "closing your tab" with the IRS. You decide to pay tax now so the bitcoin can be tax-free later.

No income limitations exist when converting a Traditional IRA to a Roth IRA. You can convert any amount during any tax year, but that conversion will count as ordinary income (think climbing tax brackets) in the year performed.

A Roth conversion can be accomplished in several ways, the most common of which include:

- A direct rollover from a former employer plan (such as a 401(k), 403(b), 457, or TSP): The plan's administrator can send the money to your new account or give you a check made out to the new account that you can then deposit. Note that sometimes you can perform an "in-service" rollover as an active employee, but you'll need to check with your administrator.



- A trustee-to-trustee transfer: The assets are directly transferred from the financial institution (or trustee) where your Traditional IRA is held and the one where your new Roth IRA will be held.
- A 60-day rollover: The money is paid to you and you then deposit all or part of it in a Roth IRA within 60 days.

The first two methods are the easiest and most efficient. In a 60-day rollover, failure to deposit the money within time will cause the amount to be treated as taxable income (and you may also face a 10% penalty on early distributions if you're under age 59½).

Roth conversions in a bitcoin world can be powerful due to the inherent volatility of the asset. When the bitcoin price dips, a Roth conversion allows you "close your tab" with the IRS at a cheaper rate, and the ride back up is all tax-free.

	TOTAL BTC	TAX IMPLICATION
ROLLOVER FROM A TRADITIONAL IRA OR 401(K) TO A BITCOIN IRA	2	INCOME TAX DEFERRED
ROTH CONVERSION INTO A BITCOIN IRA	1.4 (-.6)	NO FUTURE TAXES
LIQUIDATE TRADITIONAL IRA AND BUY BITCOIN OUTSIDE OF AN IRA	1.2 (-.8)	INCOME TAX + PENALTY TODAY + FUTURE CAPITAL GAINS TAX

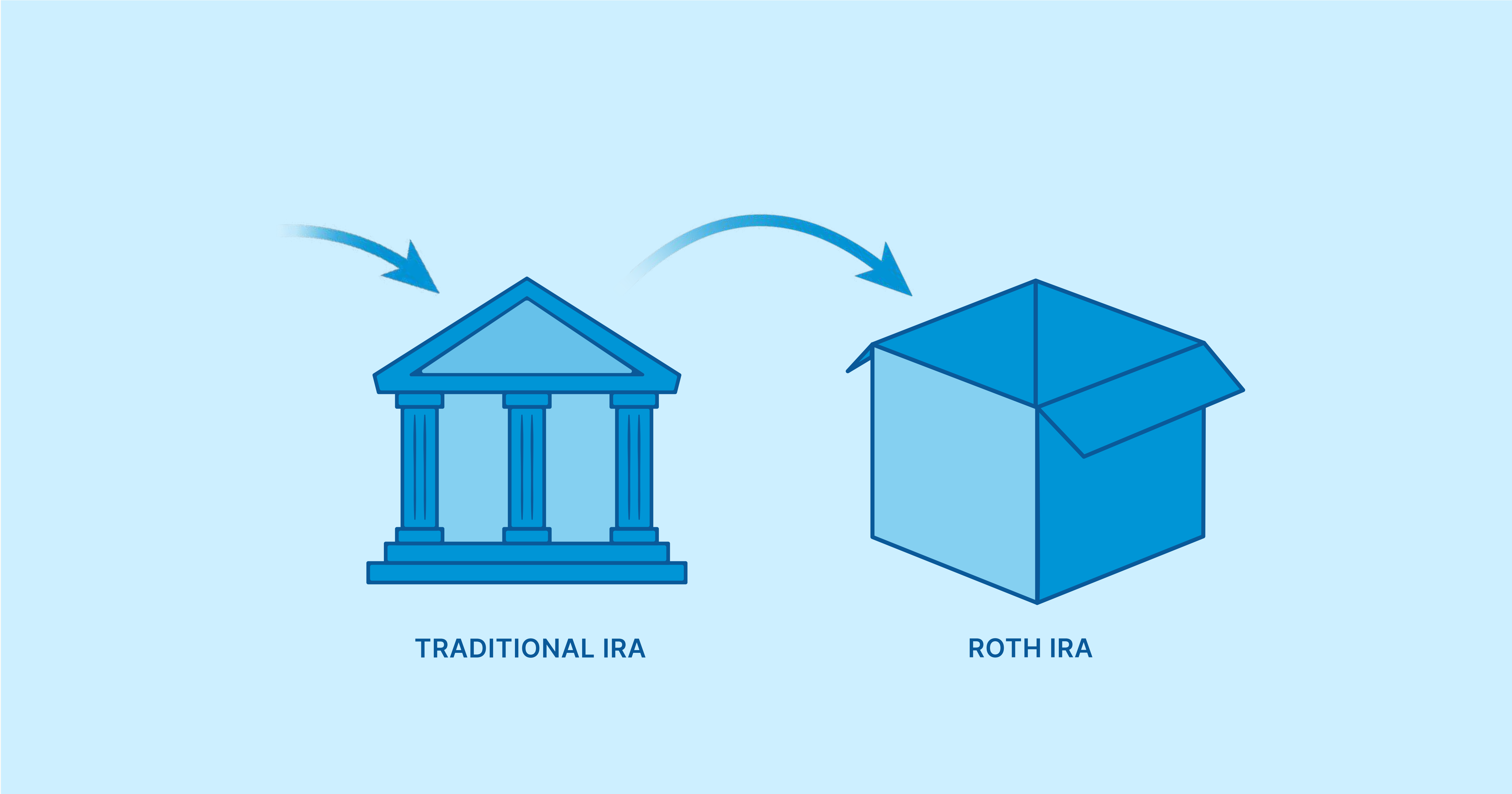
3. "Backdoor" contributions

Backdoor Roth contributions are a popular way for high-income individuals to save bitcoin tax-free. A "backdoor" Roth contribution is an informal term for a technique higher-income taxpayers can use to get around the income limits for direct contributions.

Since Traditional IRAs have no income limits on eligibility, high-income taxpayers can make non-deductible contributions to Traditional IRAs and subsequently convert those contributions into Roth IRAs. Since the contribution was non-deductible in the first place, there is no extra tax incurred during the conversion. Metaphorically, the contribution hops across a "lilypad Traditional IRA" before landing in Roth. This has the same net effect taxwise as making a standard direct contribution

To continue the metaphor, if a Traditional IRA is "already occupied" by existing pre-tax assets, hopping across could be more complicated. This is due to the IRA aggregation rule. Effectively, you need a clean slate Traditional IRA to seamlessly transition your non-deductible contribution to Roth.

Backdoor contributions are a multi-step process, but once you have done the first one you will get the hang of it. See **Appendix B** for more detail on how the process works.



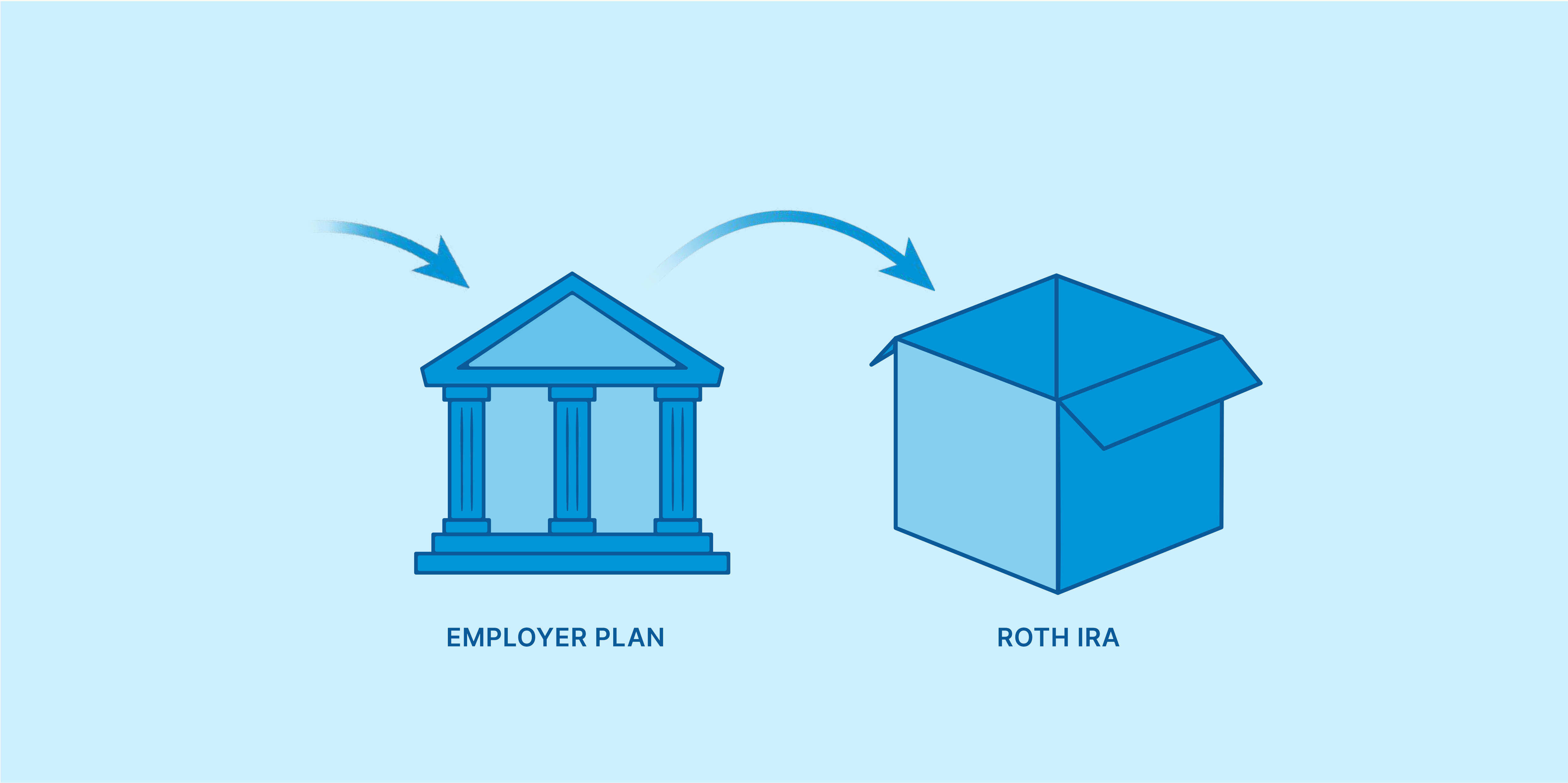
4. "Mega backdoor" contributions

The "mega backdoor" contribution is a heftier version of the standard backdoor method. The mega backdoor uses employer plans (predominantly SEP IRAs and Solo 401(k)s) as the pre-tax vehicle to catch the initial contribution before conversion. Employer plans generally have higher limits, allowing you to contribute and convert more than $6,000 per year. The maximum 2022 contribution amount for the mega backdoor strategy is $61,000—nearly three whole bitcoin at this writing!

SEP IRAs and Solo 401(k)s are the most viable options for self-employed individuals. Non-self-employed individuals may not be allowed to contribute via mega backdoor since their employer plan must allow for "in-service" rollovers (see 2A above). Again, please consult with your tax advisor to verify strategies that fit your personal situation.

But what if you already have existing retirement accounts? How can you ensure that you preserve as much value as possible and walk away with the most bitcoin and the smallest tax burden when you decide to start making withdrawals later in life?

We aren't able to give any sort of tax advice here at Unchained. We encourage you to consult a tax advisor for any questions related to the different types of IRAs and how they apply to your specific tax situation.



Can I contribute bitcoin directly to my IRA?

No. Under IRC 408(a)(1), IRA contributions must be U.S. dollars. The exception will be if you are already holding bitcoin in an IRA with a different bitcoin IRA provider and want to do an "in-kind rollover" of the bitcoin from one bitcoin IRA to another. That is only allowed if your old provider allows it; Unchained has no control over whether the old provider will allow an in-kind rollover or whether it must be in USD.

Key takeaways

As with everything when planning for retirement, your circumstances are going to be unique. But taking advantage of the many ways you can fund an IRA by making annual contributions and converting your pre-tax retirement assets will ensure you retire with the most bitcoin and the lowest tax burden.

VI. Concerning bitcoin IRA sustainability & key control

At Unchained, we're commonly asked by clients whether holding bitcoin in an IRA is "IRS-approved" and whether the IRS may "ban bitcoin IRAs in the future." The short answer: Holding bitcoin in an IRA is not prohibited, and any changes to this would require an act of Congress. To appreciate why this is, you first need to understand the legal framework behind IRAs in the U.S.

Prohibited investments, not allowed investments

The Internal Revenue Code (IRC) does not list which types of investments are allowed within retirement accounts. It is a negative statute in this regard; it instead lists investments that are not allowed within a retirement account. Any investment that is not prohibited is therefore allowed.

Not life insurance

Several sections of the IRC address prohibited investments in a retirement account. The first of these is IRC 408(a)(3), which, in a straightforward manner, prohibits an IRA from owning life insurance. This does not raise any issues for bitcoin IRAs.

Not a collectible

The next of these sections is section 408(m), which bans investments in collectibles. IRC 408(m)(2) defines a "collectible" as:

(A) any work of art,
(B) any rug or antique,
(C) any metal or gem,
(D) any stamp or coin,
(E) any alcoholic beverage, or
(F) any other tangible personal property specified by the Secretary for purposes of this subsection.

Bitcoin is very clearly not a collectible under subsections (A) through (E). With regard to subsection (F), the Secretary (of the Treasury) is only empowered to by regulation define tangible property as a collectible. Because bitcoin is intangible property, it would be outside the legal authority of the Secretary to designate bitcoin as a collectible under this subsection.

Prohibited transactions, not approved transactions

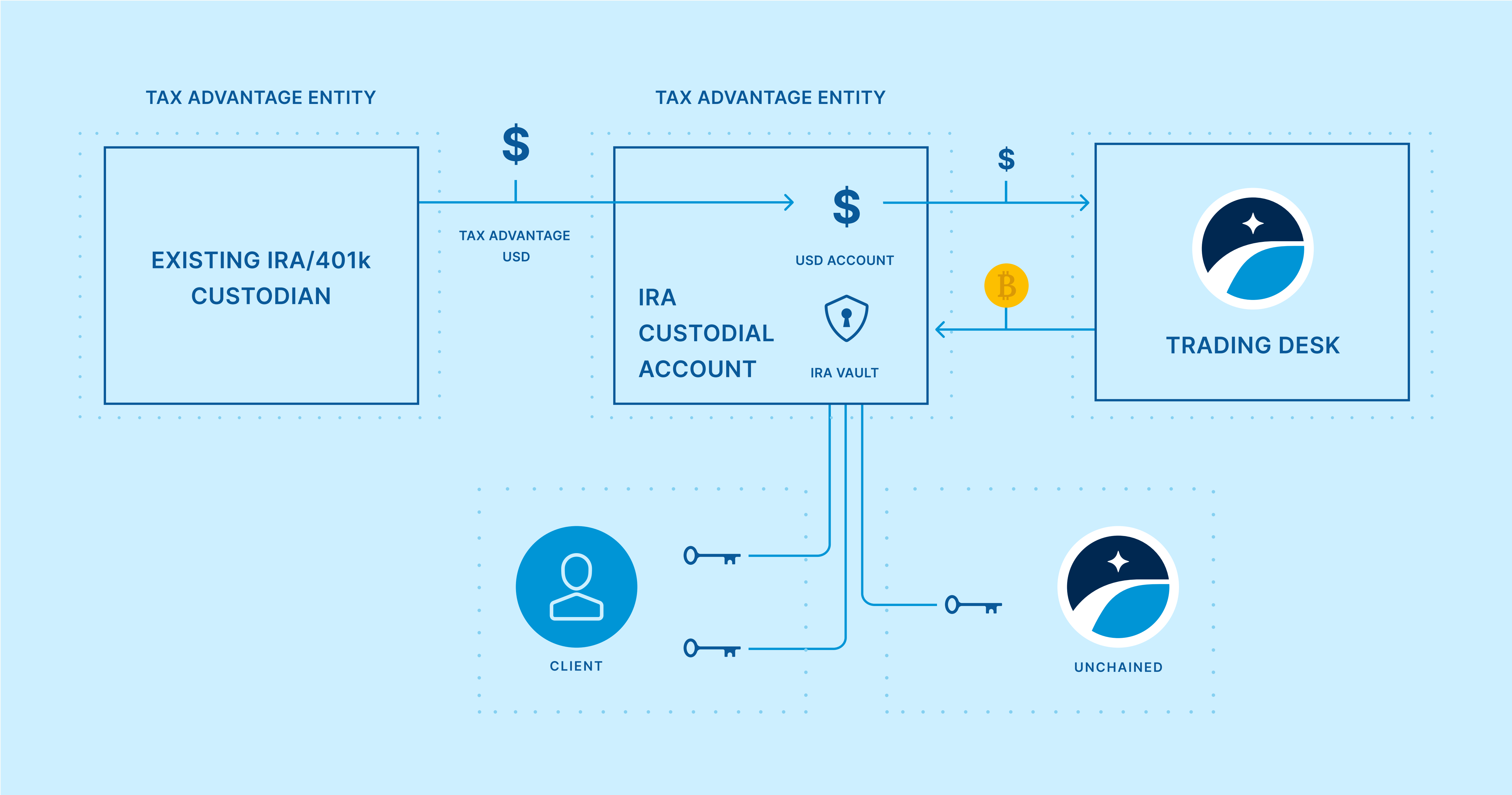
The last, and most comprehensive, section of the IRC that bans certain retirement investments is IRC 4975, also known as the Prohibited Transaction Rules. The six Prohibited Transactions are:

1. 4975(c)(1)(A): The direct or indirect sale, exchange, or leasing of property between an IRA and a "disqualified person".
2. 4975(c)(1)(B): The direct or indirect lending of money or other extension of credit between an IRA and a "disqualified person" (including personal guarantees).
3. 4975(c)(1)(C): The direct or indirect furnishing of goods, services, or facilities between an IRA and a "disqualified person".
4. 4975(c)(1)(D): The direct or indirect transfer to a "disqualified person" of income or assets of an IRA.
5. 4975(c)(1)(E): The direct or indirect act by a "disqualified person" who is a fiduciary whereby he/she deals with income or assets of the IRA in his/her own interest or for his/her own account.
6. 4975(c)(i)(F): Receipt of any consideration by a "disqualified person" who is a fiduciary for his/her own account from any party dealing with the IRA in connection with a transaction involving income or assets of the IRA.

A "disqualified person" is generally the IRA owner as well as certain people related to him. As you can see, none of these provisions would ban bitcoin investments so long as the IRA does not enter into any bitcoin purchase, sale, or lending transactions with a related party and the IRA bitcoin is never used as collateral for any kind of loan. An IRA that merely holds bitcoin purchased from an unrelated third party does not come under the rule.

Can I control the keys?

All IRAs must be custodial. While bitcoin is clearly not a prohibited investment in an IRA, there remains a requirement under IRC 408(a)(2) that all IRAs have a custodian. The custodian must be a licensed financial institution. Unchained has partnered with Fortis Bank to fill this custodian role. In McNulty v Comm'r, 157 TC 10 (2021), the Tax Court recently expounded on what role a custodian must play in an IRA's investments.



We designed the structure of the Unchained IRA to comply with all relevant tax law and believe this structure is as sustainable as any other type of retirement account under current law.

This does not mean IRA investors need to give up control of the keys within their IRA. With an Unchained IRA for instance, the official custodian delegates key control to the IRA holder, which is managed via a dedicated Unchained vault. That dedicated vault is properly titled to the IRA, and all transactions are actively monitored by the custodian (through Unchained) for IRS compliance.

In short, Unchained IRAs comply with IRC 408(a)(2) while also allowing Unchained clients to maintain control over their bitcoin's private keys.

Appendix C explains the risks associated with checkbook and self-directed IRAs more generally, and **Appendix D** goes into detail on how Unchained complies with the custodial requirement of IRC 408(a)(2) as interpreted by *McNulty*.

Key takeaway

We believe that an Unchained IRA is as sustainable as any other type of retirement account under current law. Depending on the specific circumstances, you can hold many kinds of unconventional investments in an IRA, including real estate, private stock, stock options, as well as bitcoin. And while laws can change, an act of Congress would be required.

Unchained

VII. Preparing your bitcoin IRA for inheritance

Considering inheritance

Holding bitcoin for retirement is important, but as daunting as it may be, it's important to consider how to deal with your retirement plans being interrupted. How do you ensure your retirement bitcoin passes properly at the time of your death? While each bitcoin inheritance situation is different, here we'll look at how bitcoin inheritance works from a legal perspective and go over five key considerations to get started.

Understanding title vs. possession

There are two sides to the inheritance equation: possession and title. Possession is self-explanatory and refers to the ability of your beneficiary to access your assets (which, in terms of bitcoin, means having control over the private keys). Possession alone, however, does not create valid title. Title is the legal entitlement to own the coins.

Title and possession are two different things, and you need to approach each as equally important, distinct problems.

To understand the distinction, imagine someone breaking into your home and stealing a backup seed phrase that gave access to all of your bitcoin. (In this hypothetical, you're not an Unchained client, as Unchained clients are protected from losing their coins in this way through the nature of Unchained vaults based on multisig.) In this situation, the thief has possession of your bitcoin but does not have valid title. As a result, if you know the thief's identity, you can pursue civil and criminal action against them.

This hypothetical situation would be legally identical if the thief had stolen any private property of yours—not just a backup seed phrase.

This is the most important thing to know regarding inheritance and bitcoin: bitcoin is not at all unique, legally speaking—it's subject to the same concepts of possession and title. And like any other asset, if you own it at death, bitcoin passes pursuant to your will. The executor named in your will is responsible for taking an inventory of your assets (including but not limited to bitcoin), discharging your debts, and distributing the remaining assets to the beneficiaries named in your will.

Consult an attorney to legally establish your will or trust

It is critical that you take the time to

consult with an attorney in the state where you reside to have your will and other estate planning documents drawn up. It is your will and other estate planning documents that function to properly pass title to your bitcoin to your beneficiaries, as well as establish who will manage the transferral of your estate—the executor.
Alternatively, you may want to work with an attorney to set up a living trust. Living trusts are a common alternative for passing your assets to your heirs in the event of your death. These trusts allow you to maintain ownership over your assets while legally establishing your beneficiaries. A living trust does not impair your control over your assets during life.

Living trusts have many benefits, but the most notable is that they can often help protect your privacy. When properly set up and funded before death, they typically allow your assets to pass to your loved ones outside the public record. They can also make the distribution of assets smoother and can be great when used in combination with services like Unchained collaborative custody.

Tip: Unchained can title a multisig vault or vaults to your living trust or other more sophisticated tax planning devices (such as GRATs, GRUTs, charitable remainder trusts, FLPs, or dynasty trusts).

Any inheritance planning which covers only the possession side of the equation while ignoring the title is likely to create more problems than it solves, as it can result in your intended beneficiary in possession of the coins being ensnared in endless lawsuits from other parties seeking those coins.

One thing to note: While it can be helpful for your estate planning attorney to have bitcoin knowledge, because bitcoin is not legally unique, it's not strictly necessary for this step.

Ensure your executor or trustee can access your keys

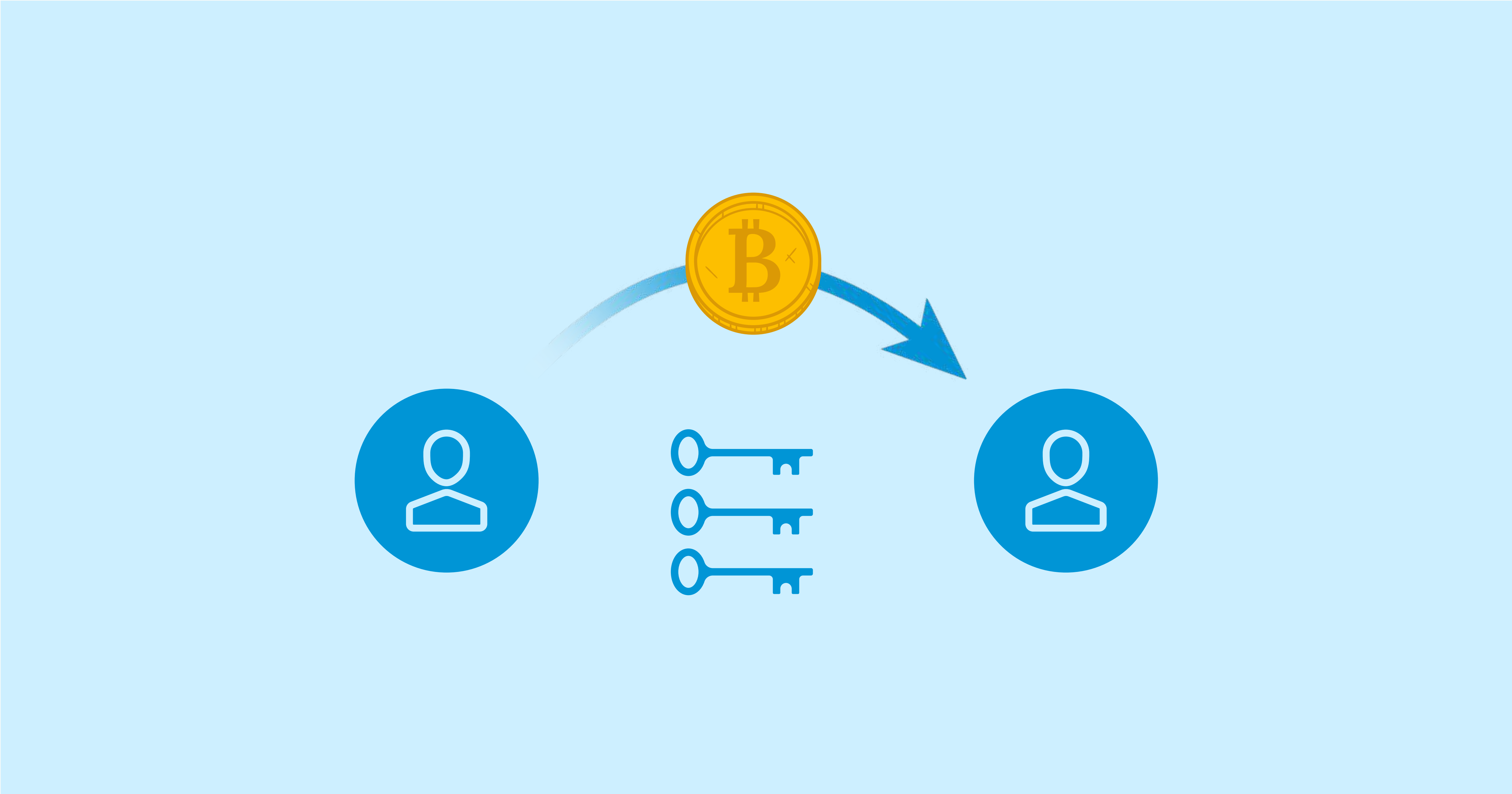
While only considering possession transfer is a recipe for disaster, it's still true that the bitcoin-specific challenges in estate planning lie in the realities of physical possession transfer.
For this, you need to consider how to ensure your loved ones gain possession —or access—to your bitcoin when you're

gone. This can vary depending on how you're securing your bitcoin. Either your executor or trustee will be responsible for administering your assets, so it's your job to ensure that that executor or trustee has physical access to your bitcoin keys when you're gone.

If you use a standard singlesig wallet, this would mean you need some means of providing the executor or trustee with information about how to access your bitcoin keys, but while you're still alive, sharing information about a singlesig self-custody setup is risky.

Tip: Ensuring your hardware devices, seed phrases, and PINs are secure while you're still alive should be your top priority. Our operational security guide designed for Unchained clients has guidance that will be useful for any bitcoin custody setup.

Bitcoin multisig can help here. Multisig lets you set up a collection of keys that must be used in combination with one another for bitcoin to be spent. For example, you could create a 2-of-3 multisig where you have three total keys; two are needed to sign a transaction.



If you prepare them properly, your executor will be able to move your bitcoin to the appropriate beneficiaries.

This means that someone with access to just one key cannot spend your bitcoin alone, but could help spend your bitcoin.

This opens up the ability to share a key (or backup of the said key) with an executor, trustee, or other trusted third party to be used to sign a transaction at the time of your passing.

Ensure your executor or trustee knows what to do with your keys

Finally, having access to your private keys is not enough for your loved ones to gain possession: Your executor or trustee must also know what to do with those private keys. For this reason, it may be a good idea to choose an executor or trustee who is already familiar with bitcoin. Doing so can minimize their learning curve and headaches while minimizing the chances that they could make a mistake.

If your executor or trustee is already familiar with bitcoin, or even more specifically, how your self-custody setup works, they will still benefit from detailed instructions for handling the transfer of possession.

If you're setting up your own inheritance plan by yourself, you'll want to have simple documentation detailing your security model and how your loved ones can orchestrate the moving of funds. Upon your death, if your executor or successor trustee is technically savvy and you have provided them with the location of both of your keys, they can move your bitcoin to the appropriate beneficiaries without the help of a third party, should they choose.

But this is another place where Unchained and multisig collaborative custody can help: Our team of experts can walk your executor, trustee, or even beneficiaries through the whole process upon your death, never requiring that you give us complete control over your bitcoin. Check out the Unchained Inheritance Protocol if you want help with the bitcoin possession transfer process.

Bitcoin inheritance tax: Bitcoin is property

One of the most common questions people have about bitcoin inheritance is what their loved ones' tax obligations will be. Again, while this varies widely by jurisdiction, in the U.S., bitcoin is treated as property for tax purposes. The U.S. federal government applies an estate tax of up to 40% on taxable estates exceeding a certain threshold, which changes yearly with inflation ($12.92 million in 2023).

In addition to federal estate tax, your state may impose its own estate tax or inheritance tax, or even both. If you're approaching an asset threshold that would make federal or state death

VIII. Conclusion

At Unchained, we don't just help you set up and hold bitcoin in an IRA—we help you with everything as it relates to managing your bitcoin wealth. That's why we offer multisig vaults—the foundation of our IRA product—lending, an OTC trading desk, and more. If you're ready to get started with any of these services, our Concierge team is ready to help you get started at a moment's notice. Whether you need help setting up an IRA or want to figure out complex bitcoin technical subjects, we'd love to hear from you.

Appendix A. Can I mine bitcoin in an IRA?

Holding bitcoin in an IRA is something we recommend to clients for its massive tax advantages, and we believe it's as sustainable as can be under current tax law. But what about bitcoin mining in an IRA? You may, like many Unchained clients, wonder if doing so is beneficial or even permissible. At Unchained, we don't allow clients to engage in bitcoin mining within their Unchained IRA because mining within an IRA can have adverse tax consequences.

Tax consequences of mining

Before discussing mining within an IRA, it's important first to understand the tax consequences of regular bitcoin mining in the U.S. If a taxpayer obtains bitcoin through mining, they must recognize income in the amount of the fair market value in U.S. dollar terms of the bitcoin received on the date of receipt. That recognized income is subject to income tax at ordinary income tax rates.

On top of income tax, the taxpayer may also be subject to self-employment tax. Self-employment tax is how people earning income outside of an employer-employee relationship contribute to

Social Security and Medicare. Self-employment tax would be imposed if the underlying mining activities rise to the level of a "trade of business." This is a subjective standard, and the IRS does not provide any guidelines on the topic specific to mining. For additional information, you may wish to consult IRS Notice 2014-21.

Mining in an IRA is attractive, and technically possible

On first glance, mining within an IRA appears very attractive. As explained above, mining generates a lot of income, and that income is taxed at ordinary rates (as opposed to lower capital gains rates). On top of that income tax, self-employment tax may apply. Mining within an IRA would eliminate all of these tax consequences.

The Internal Revenue Code (IRC) does not list which types of investments are allowed within retirement accounts. In this regard, it is a negative statute; it instead lists investments that are not allowed within a retirement account. Any investment that is not prohibited is therefore allowed. There is no specific prohibition on investing in a mining operation within the Code, so technically, it is possible to mine bitcoin in an IRA.

So what's the "catch"?

The question you should ask is not whether it's possible to mine bitcoin in an IRA, but whether it's prudent given current tax law and the risks involved. To weigh these factors properly, you need to consider unrelated business income tax or UBIT.

Unrelated business income tax (UBIT)

Unrelated business income tax is a special tax imposed by section 511 of the Internal Revenue Code on otherwise tax-exempt charities and other nonprofits when they engage in "trade or business" activities. The idea behind UBIT tax is this: if a nonprofit engages in business activity, it shouldn't gain an inherent advantage over its for-profit competitors.

It may seem strange to worry about a statute designed to tax charities and nonprofits. However, IRC 408(e)(1) states that for UBIT purposes, an IRA is treated the same as a charity. This is due to worries that IRAs, being tax-exempt in the same way charities and nonprofits are tax-exempt, could also gain an unfair competitive advantage over for-profit competitors.

Some things are certainly not "trade or business" activities

Certain types of income are never deemed to be from "trade or business" activities, namely interest, dividends, capital gains, royalties, and (most) rental income from real estate. Outside of those safe harbors, what constitutes a "trade or business" activity is a subjective standard.
However, according to Treas. Reg. 1.513-1(b), "the term trade or business has the same meaning it has in section 162, and generally includes any activity carried on for the production of income from the sale of goods or performance of services." "Section 162" is section 162 of the Internal Revenue Code, which defines which types of activities are eligible to take business deductions against income.

It stands to reason that bitcoin mining is a "trade or business" activity

Outside of the IRA context, miners regularly deduct their business expenses (such as electricity and equipment costs) against their mining income. As a result, under Treas. Reg. 1.513-1(b), it stands to reason that mining is a "trade or business" activity that would generate Unrelated Business Income Tax within an IRA.

Interestingly, taking a loan against your bitcoin in an IRA would also expose your IRA to Unrelated Business Income Tax, or UBIT.

Bitcoin's returns are enough

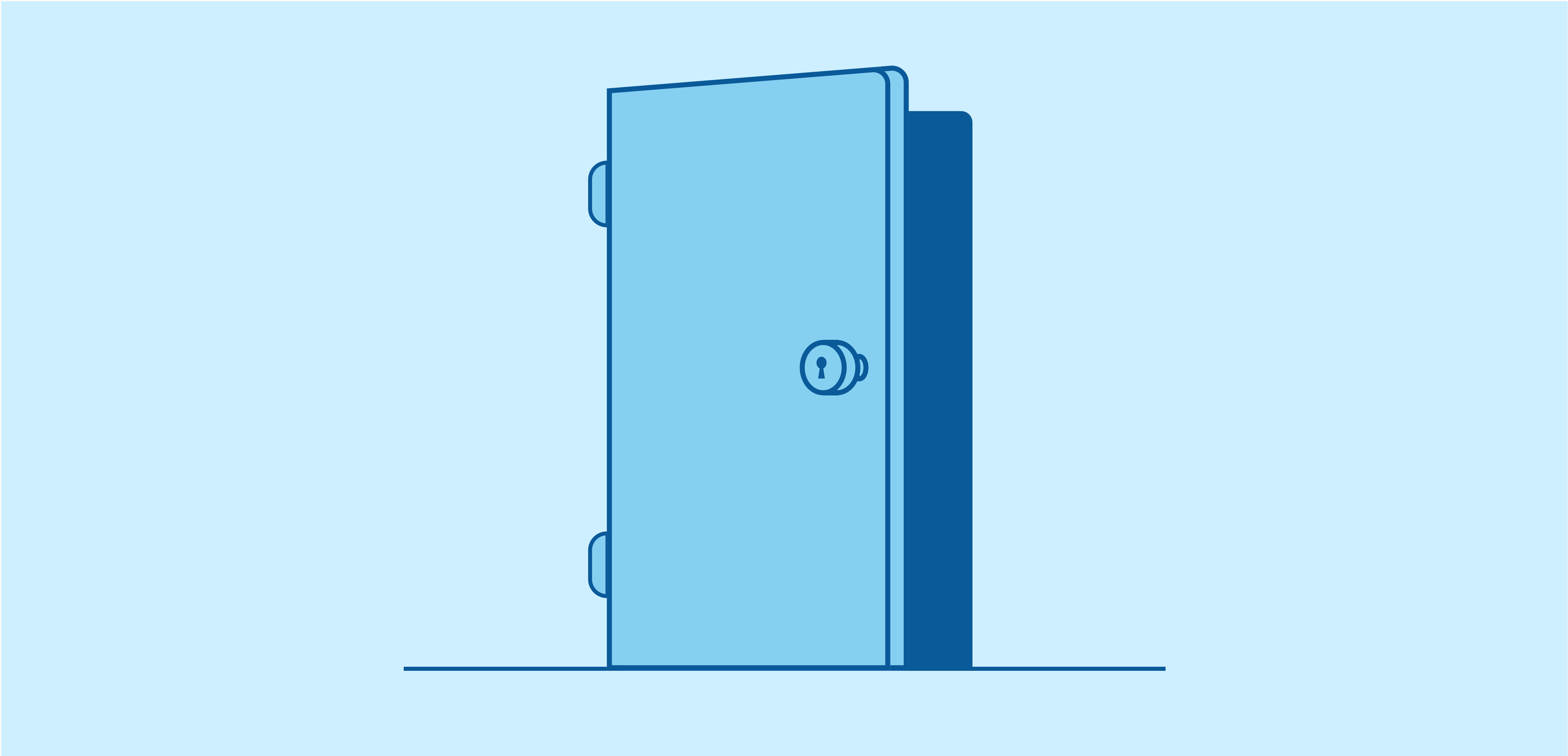
Historically, simply buying and holding bitcoin has yielded exponential returns. The tax risks involved in mining in an IRA do not seem worth it compared with those historical buy-and-hold returns, so with our Unchained IRA product, we're maintaining a singular focus on buying and holding bitcoin.

Appendix B. How to make a backdoor contribution to a bitcoin Roth IRA

If your income is higher than a certain amount per year as designated by the IRS, there are special provisions you must consider as it relates not just to bitcoin IRAs, but IRAs in general. Here we'll consider backdoor contributions, which allow you to contribute to a bitcoin Roth IRA even if your income exceeds the IRS income ceiling.

1. Open a Traditional IRA for free

To make a backdoor Roth contribution each year, you'll first need to open a Traditional IRA at a discount broker. Many offer this service for free, including Ameritrade, Schwab, eTrade, and more (all are fine for this purpose). You'll only need to open it once, and you can use it every year for the backdoor.



2. Make a contribution equal to the annual limit

Each year, you need to make a contribution equal to the current IRA annual contribution limit to that brokerage Traditional IRA. Because you are over the income limit for a Traditional IRA, you will get no tax deduction for that contribution. For the purposes of the backdoor contribution process, this is a good thing, as we will explain below.

3. Perform a Roth IRA conversion

You will then ask the brokerage to do a Roth conversion. The brokerage will move the funds from the Traditional IRA into a new Roth IRA at the brokerage, while keeping the Traditional IRA open with a zero balance.

4. Perform a Roth-to-Roth transfer

After the Roth conversion at the brokerage, you then need to perform a Roth-to-Roth transfer to your bitcoin IRA. For your Unchained IRA, you'll fill out an Unchained IRA transfer form and submit it to us. This will initiate a Roth-to-Roth transfer from your discount broker to your Unchained Roth IRA.

From the point of view of your Unchained IRA, this is just a Roth transfer, not a backdoor. This is because the "backdoor" portion of the contribution was completed at the discount brokerage.

Leave a small amount in the discount brokerage account

When doing the transfer from the brokerage to your Unchained Roth IRA, you will want to transfer slightly less than the full amount, leaving $5 (or even $0.50) in the brokerage Roth, so that the brokerage won't close your Traditional and Roth accounts and you can use them for future backdoor contributions. That also usually avoids the brokerage account closure fee.

Tax filing considerations for backdoor contributions

If you do a backdoor contribution, at the beginning of the following year, you'll get a 1099R from the discount broker you used showing the Roth conversion (separate from the nontaxable 1099R showing the transfer to your bitcoin IRA). So long as you explain to your tax preparer that this Roth conversion was part of a backdoor contribution (i.e, that you made a nondeductible Traditional IRA contribution preceding it), they should properly report the Roth conversion as nontaxable on Form 8606 with your personal tax return.

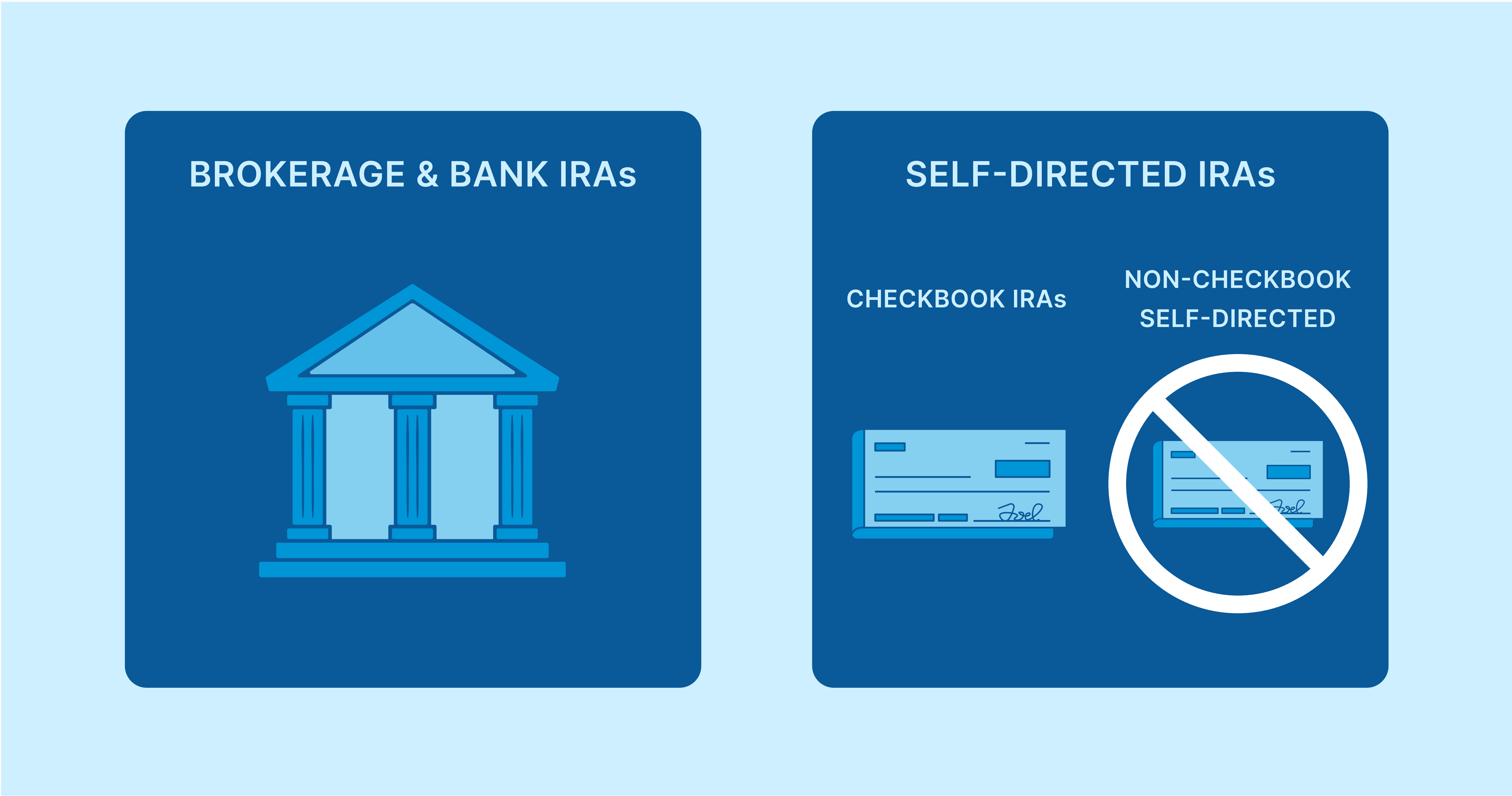
The $6,000 non-deductible contribution that you make annually to a Traditional IRA is reported on Form 8606, Part I, and the Roth conversion gets reported on Form 8606, Part II. You'll see that on Form 8606, Part II, the amount from Part I gets subtracted to determine the taxable amount. So each year you should have a nondeductible contribution of $6,000 and a conversion of $6,000, which should net out to zero taxable income.

Appendix C. 6 common pitfalls of self-directed & checkbook IRAs

Let's take a closer look at self-directed and checkbook IRAs. There are certainly risks associated with self-directed and checkbook IRAs, so let's look at how they may apply in the context of bitcoin, and why there may be increased regulation coming in the future. But first, we need to define our terms and differentiate between IRA structures.

The different IRA structures

The different IRA structures can behave in an "every square is a rectangle, but not all rectangles are squares" kind of way. IRAs can be Traditional (pre-tax) or Roth (post-tax) regardless of custodial relationship/structure. All IRAs are required by law to have a licensed financial institution acting as custodian over the IRA's assets, so all IRAs are custodial. There are two main types of custodial IRA structures: brokerage and self-directed.



Brokerage and Bank IRAs

Brokerage and bank IRAs are the most familiar and common types. Brokerage and Bank IRAs allow investors to invest in stocks, bonds, ETFs, mutual funds, and other securities, as well as banking products (CDs, deposit accounts, etc.). Examples include your typical Fidelity, TD Ameritrade, or Charles Schwab IRA. The Unchained IRA is closest to this structure in this hierarchy.

Self-directed IRA (SDIRA)

A self-directed IRA is a custodial IRA where the custodian allows for expanded investment options outside of or in addition to typical brokerage and bank assets (stocks, bonds, CDs, etc.). Owners of self-directed IRAs can invest in non-traditional assets like real estate, businesses, private loans, tax liens, precious metals, and digital assets. Although the IRS doesn't have a definitive list of allowed investments, it certainly has a few that are not allowed (collectibles, life insurance, certain derivatives, S-Corps, etc.).

Subset A: Checkbook IRA

Checkbook IRAs are a subset of self-directed IRAs. The term "checkbook IRA" is not standard, but it usually refers to a self-directed IRA that gives an account owner control of investments through a checking account, usually through an LLC conduit. The account holder can then make investments with IRA funds simply by writing a check ("checkbook control"). With the added freedom of additional investment choices comes added responsibility of administration, as well as legal ambiguity as to whether the structure still qualifies as a tax-exempt IRA.

Subset B: Non-checkbook self-directed IRA

A subset of self-directed IRA where the custodian approves transactions before investments are made. Investors must wait for the custodian to review each potential investment and formally accept title to the underlying asset. These were commonly used for real estate and private equity investments and began regaining popularity once additional legal uncertainties arose regarding checkbook IRAs in late 2021 (discussed in section 4 below).

Risks associated with self-directed and checkbook IRAs

I. Liquidity

Unfortunately, many self-directed assets lack liquidity, making them difficult to sell quickly. Examples include real estate, privately held businesses, precious metals, etc. If cash is ever needed for a distribution or internal expense, selling an asset fast could be a problem (which compounds into other problems, i.e., accidentally commingling funds). Self-directed IRA owners should conduct thorough due diligence on asset liquidity before committing to an investment strategy.

II. Formation and legal structure

When forming a checkbook IRA, a self-directed IRA LLC is established first. Then, the LLC establishes a checking account just like any other business entity. Next, the LLC is funded by sending the IRA funds to the checking account.

With the proper legal structure, the IRA owner can become the sole managing member of the LLC and have signing authority over the checking account. However, improper legal structure, registration, or titling could all cause serious problems for the tax-advantaged status of the IRA. Many checkbook IRA facilitators are competent, but errors could always lead to issues and possible disqualification/loss of the entire IRA.

III. Misreporting transactions

Within a checkbook IRA, owners can fund investments quickly and freely, but this comes with the responsibility of properly following rules and self-reporting transactions.
At the end of each year, the owner of the LLC will need to provide complete transaction details to its IRA custodian and submit fair market valuation (FMV) information. Without oversight into each transaction you make, a custodian is more likely to misreport income on your investments. Always ensure the custodian has accurate information to avoid accidentally breaking the law.

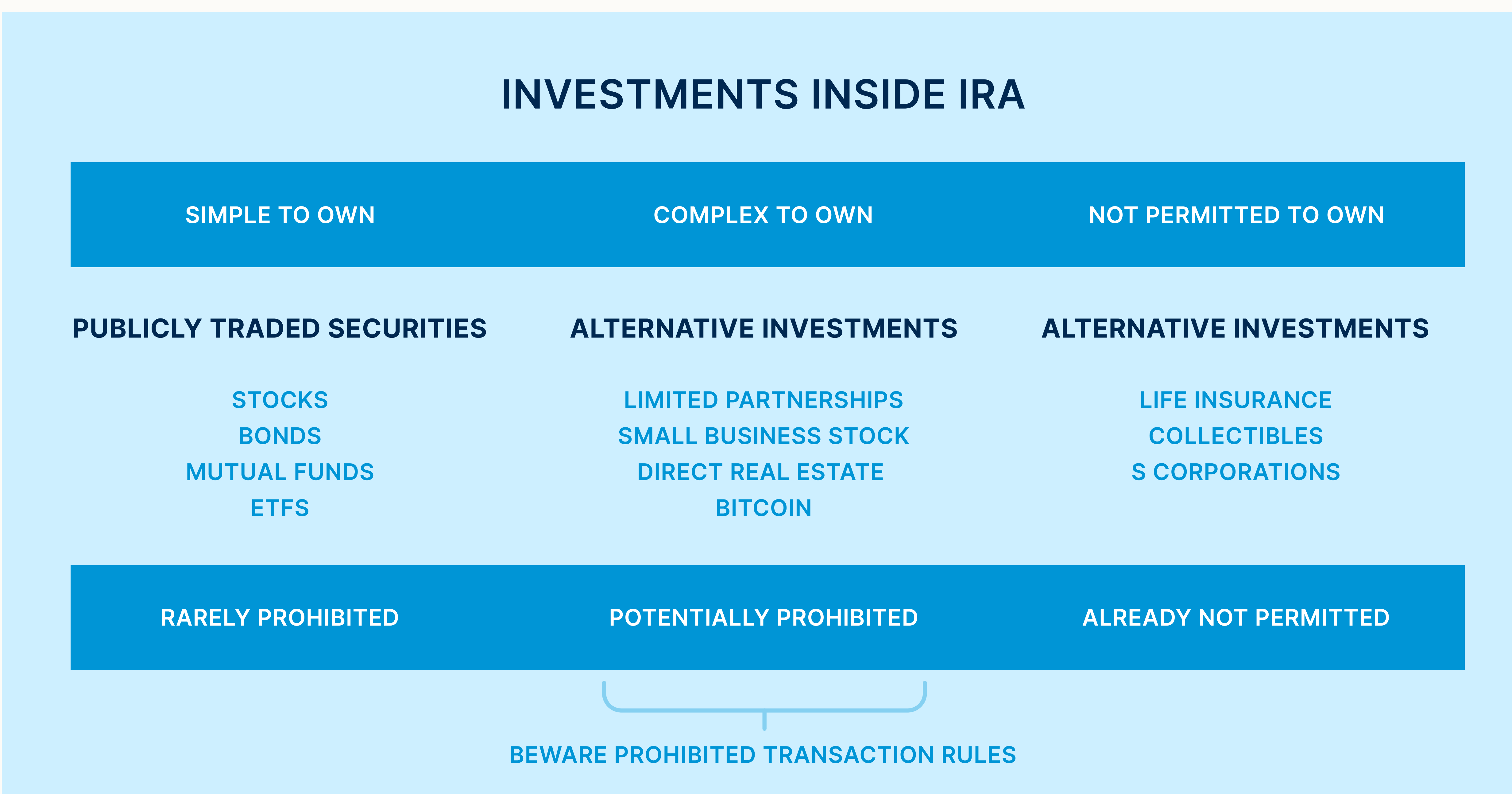
IV. “Deemed distribution” treatment

Clients looking to buy precious metals, real estate, or digital assets should know the risk of “deemed distributions” treatment. A recent United States tax court case, McNulty v. Commissioner, illustrates the considerable risks of maintaining a checkbook IRA. In the McNulty case, a taxpayer used her checkbook IRA LLC to purchase gold from a precious metals dealer. She stored the LLC's gold at home in her personal safe. The court ruled that her "unfettered control" over the LLC's gold without third party supervision created a deemed taxable distribution from her IRA.

It is impossible to know how far a tax court will go applying "deemed distribution" treatment to any given transaction or investment within a checkbook IRA. For checkbook IRA owners that hold the keys to bitcoin in an unsupervised structure, there is a risk that the McNulty ruling could cause your entire IRA to be subject to tax. Further, since alternative investments were fairly recently (2015) added to IRS Publication 590, it's entirely possible that the IRS and Congress could apply more scrutiny to checkbook IRAs going forward.

V. Prohibited transactions

All self-directed IRA owners are always prohibited from commingling personal and IRA assets or using any personal funds to improve IRA assets. "Self-dealing" is one of the most common



Source: Michael Kitces

pitfalls for self-directed account holders. For example, if you use your IRA to purchase real estate, you are not allowed to use the property yourself—not even a little bit. You cannot live there, stay there, or rent office space to yourself there. You are not even allowed to make your own repairs or provide "sweat equity."

It's not only the IRA owner that can't participate in any "self-dealing," but spouses, children, and grandchildren as well. They are considered disqualified individuals, and penalties are stiff. These are stringent rules and can result in huge tax headaches if breached. I don't intend to crush any dreams, but investing your 401k/IRA into your lakefront Airbnb vacation home and having you or your family stay there even once is a bad idea. No purchasing a rental home and renting it out to family members either. For further fun, see the IRS list of prohibited transactions here.

Here are a few examples of how prohibited transactions rules could be applied to digital asset investors:

- Commingling personal wallets with IRA wallets
- Leverage without a non-recourse loan
- Investing in certain collectible NFTs1

VI. Financing

Financing within a self-directed IRA is also more complicated for several reasons:

- Typically, a non-recourse loan and larger down payment are needed for any property purchases.
- Unexpected costs and fees can add up quickly and eat into any profits.
- IRA-owned active businesses could run into the issue of UBIT (Unrelated Business Income Tax). This also affects the overlap of bitcoin mining within an IRA.
- Any income and expenses must remain within the IRA structure and never commingled with personal funds. For example, when the water heater goes out (real estate) or salaries need to be paid (businesses), the IRA itself must pay for those services out of the IRA's own cash. IRA owners could be tempted to co-mingle funds temporarily as they look for short-term liquidity to solve their cash needs.

Key takeaways

The self-directed IRA space has many potential risks if not properly managed. The IRS and Congress have been paying special attention to how these structures are used and abused. Combine this with their interest in regulating digital assets, and the landscape appears ripe for further scrutiny. With that, bitcoin IRAs need a unique approach that mitigates these pitfalls.

As we'll explain next, the Unchained IRA is not a "checkbook IRA" where transactions must be self-reported, and Unchained uses its key in the collaborative custody setup to track inflows and outflows of IRA vaults. That visibility mechanism allows the custodian to actively monitor the IRA and therefore allows users to remain compliant with current IRA rules and regulations.

Appendix D. What you should know about McNulty v. Comm’r and bitcoin IRAs

On November 18th, 2021, the United States Tax Court issued an opinion, McNulty v Comm’r, 157 TC 120 (2021), which garnered a lot of internet discussion among those interested in bitcoin IRAs. Many existing and prospective Unchained clients have begun to ask what this opinion means, if anything, for Unchained IRAs. To address this, it’s important to understand the concept of a “checkbook” IRA, what the McNulty opinion said, and how Unchained IRAs fall outside the scope of the ruling...

What is a checkbook IRA?

As explained above, all IRAs are required by law to have a licensed financial institution acting as custodian over the IRA’s assetsThis often creates a problem when an IRA account holder wants to invest in an asset which traditional financial institutions do not want to physically custody, such as real estate or bitcoin.

With a checkbook IRA, an IRA owns only one asset, which is typically either an LLC or an investment trust entity. The IRA owner is appointed manager or trustee of that entity (called a “checkbook entity”), putting the IRA owner in control of the entity’s investments.

In short, the IRA invests in the checkbook entity, and the checkbook entity, in turn, does the actual investing in the alternative assets. This fulfills the custodial requirements for IRAs since the IRA custodian holds title to the IRA's only asset, the checkbook entity.

In the early 2000s, the IRS challenged structures involving IRAs wholly owning business and investment entities several times and consistently lost in tax court. These IRS losses increased confidence in the idea of a checkbook IRA and led to its surge in popularity.

The recent McNulty opinion represents a drastic departure from most attorneys' understanding of the legal principles underlying checkbook IRAs.

What did the McNulty opinion actually say?

The McNulty case involved a taxpayer holding gold in a checkbook IRA where such gold was not in the physical possession of a bank or trust company.

This is a clear violation of section 408(m) of the Internal Revenue Code (a special provision which applies only to precious metals, not bitcoin), so the taxpayer ultimately was always going to lose this case. Precious metals in an IRA must always be in the physical possession of a qualified licensed custodian under 408(m). This precious metals-specific statute has always been an exception to the principles around checkbook IRAs, and experienced tax advisors have always advised their clients not to hold precious metals in a checkbook IRA without a bank or trust company physically holding the metal.

The opinion in McNulty is very strange in that instead of merely stating that the taxpayer violated section 408(m) and ruling accordingly, the court additionally opined on IRC 408(a)(2), a section which applies to all IRAs, including bitcoin IRAs.

Even stranger, the court applied Treasury Regulation 1.408-2(e) in interpreting IRC 408(a)(2).

This is odd because the Treasury Regulation does not apply to IRA holders at all—it's instead a regulation that lays out licensing standards for certain IRA custodians who are not "banks." As such, not only was this licensing regulation not applicable to the taxpayer herself, it was also not applicable to the taxpayer's IRA custodian. This is because the statutory definition of "bank" includes not only banks, but also trust companies regulated by a state department of banking. See IRC 408(n)(3). The IRA custodian in McNulty was a trust company regulated by a state department of banking. It seems very possible that the judge was not aware of how "bank" is defined in this context. Further, even if the Treasury Regulation had been applicable, the Regulation itself states that its requirements for custodians are reduced or eliminated with respect to custodians acting in a solely passive fashion, as nearly all modern IRA custodians do. Treas. Reg. 1.408-2(e)(6)(i).

The McNulty court leaned heavily on the (inapplicable) Treasury Regulation to propose that an IRA custodian must be intimately involved not only with the actual assets owned by an IRA (the LLC or investment trust entity in the context of a checkbook IRA) but also in the investments made by any entities owned by the IRA. This is a requirement found nowhere in the statute, and further contradicts earlier court cases involving IRAs wholly owning business or investment entities. These prior cases in fact are what caused the "checkbook style" self-directed IRA industry to take off in the early 2000s.

- The holding in McNulty was grounded squarely in section 408(m) of the Internal Revenue Code, a section applicable only to precious metals and not bitcoin. Because the ruling was driven by section 408(m), the court's additional statements regarding 408(a)(2) and Treasury Regulation 1.408-2(e) were merely dicta (offhand statements of opinion which have no legally binding precedential value on other taxpayers).
- Besides being non-binding dicta, the court's statements regarding Treas. Reg. 1.408-2(e) were wholly inapplicable to both the taxpayer and her IRA custodian under the exceedingly plain language of the regulation. Further, even if the regulation at large were applicable, the portions cited by the court would still be inapplicable to a passive IRA custodian such as the one in McNulty by their own terms.

- The holding in McNulty is contrary to all prior cases on point, such cases having led to the development of the checkbook IRA industry.

Despite all of the above, in the interest of extreme conservatism, Unchained nonetheless designed its IRA to fall outside of the scope of IRAs which the McNulty opinion sought to prohibit. An Unchained IRA is intended to be even more conservative than a legacy financial system IRA when it comes to the factors analyzed by the court in McNulty.

An Unchained IRA is not a checkbook IRA

An Unchained IRA differs very substantially from a checkbook IRA. In an Unchained IRA, the IRA custodian (Fortis Bank) holds legal title to the bitcoin directly; there is no intermediary trust or LLC entity involved as there would be in a checkbook IRA. As is standard in IRAs generally, and as is specified on all Unchained IRA account statements, the IRA custodian has legal title in "FBO" format, meaning that equitable title remains with the accountholder and as such all Unchained IRAs are fully protected against hypothetical creditor or other legal claims against the IRA custodian.

When citing constructive receipt, the court's main concern was that the taxpayer could potentially withdraw assets from the IRA outside of the custodian's knowledge, evading IRS reporting. The court felt this situation created a deemed IRA distribution because such "unfettered command" without custodial monitoring implied constructive receipt of the IRA's assets. An Unchained IRA is significantly different on this point, as in an Unchained IRA, all bitcoin remain at all times in a designated multisig vault. That vault is consistently monitored by the IRA custodian (through Unchained) such that no transaction can possibly take place outside of the IRA custodian's knowledge. Both Unchained and Fortis have access to the vault's master public keys and wallet configuration file, and as a result are able to view all transactions on the public bitcoin blockchain. Further, to the extent an accountholder in an Unchained IRA holds keys, his command over the associated bitcoin is never "unfettered," as it is restrained by a contractual requirement in the Unchained Terms of Service to only use such keys as agent and conduit of the custodian, with filing of appropriate paperwork.

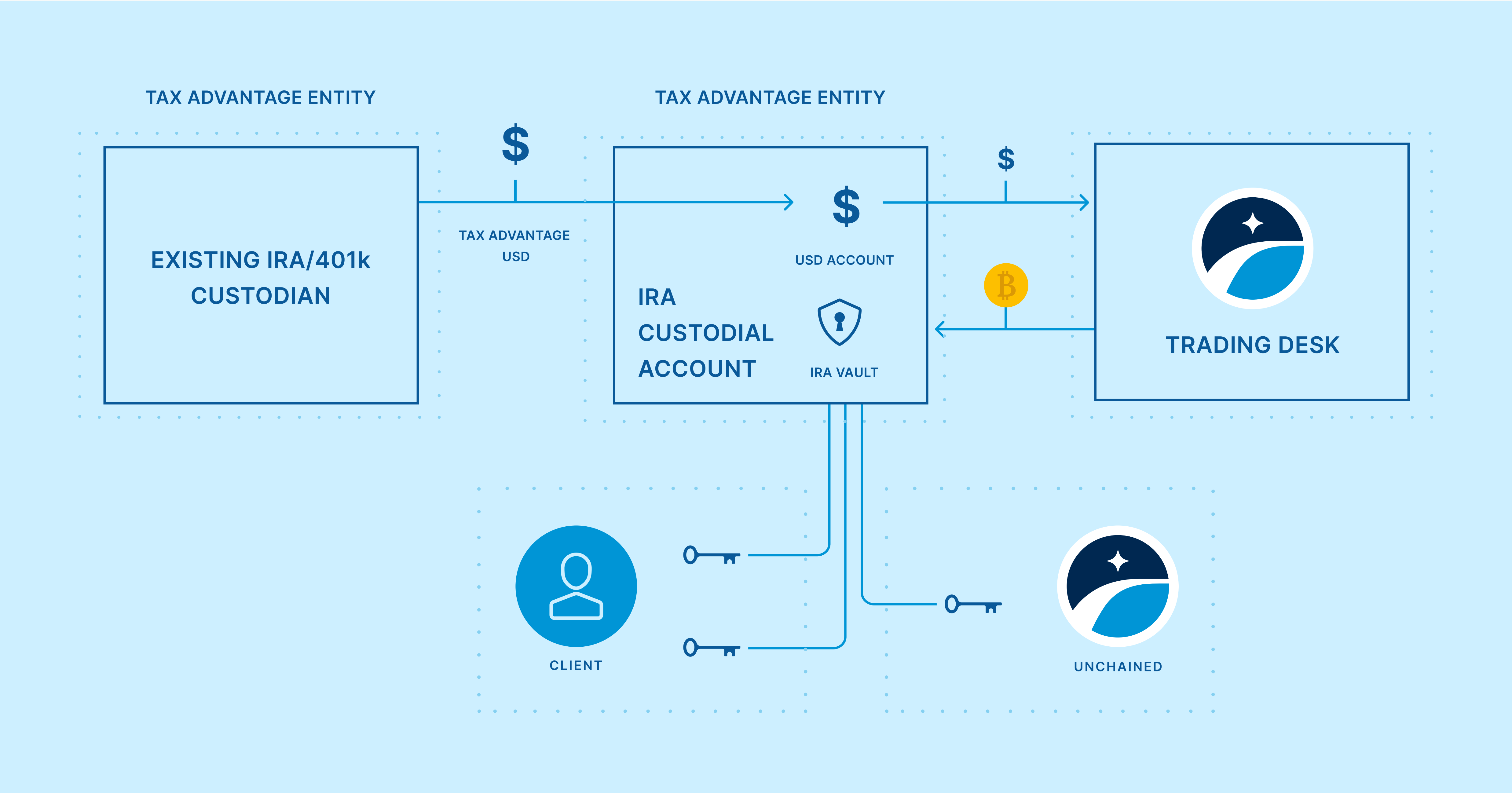
Application of the doctrine of constructive receipt to IRAs is a novel idea, and it is difficult to determine what constructive receipt could even mean in the context of an IRA. When evaluating constructive receipt as a general tax law doctrine, a Taxpayer with the legal right to request an asset on demand is deemed to be in "constructive receipt" of that asset. That can not, however, be what the court meant by "constructive receipt" in the context of an IRA, as nearly all modern IRAs, including the most milquetoast and noncontroversial brokerage IRAs in the legacy financial system, allow the account holder to receive a distribution on demand. To choose one well-known example, Fidelity contractually guarantees to all of its IRA accountholders the right to request an IRA distribution on demand in section 11 of its IRA Custodial Agreement, and goes even further by issuing its IRA accountholders checkbooks which they can use to write checks from their IRA funds to any party, including themselves, at any time without notice to the IRA custodian. It cannot be the case that the McNulty court intended to invalidate Fidelity IRAs along with nearly all other brokerage IRAs currently in existence.

When citing constructive receipt, the court's main concern was that the taxpayer could potentially withdraw assets from the IRA outside of the custodian's knowledge, evading IRS reporting. The court felt this situation created a deemed IRA distribution because such "unfettered command" without custodial monitoring implied constructive receipt of the IRA's assets. An Unchained IRA is significantly different on this point, as in an Unchained IRA, all bitcoin remain at all times in a designated multisig vault. That vault is consistently monitored by the IRA custodian (through Unchained) such that no transaction can possibly take place outside of the IRA custodian's knowledge. Both Unchained and Fortis have access to the vault's master public keys and wallet configuration file, and as a result are able to view all transactions on the public bitcoin blockchain. Further, to the extent an accountholder in an Unchained IRA holds keys, his command over the associated bitcoin is never "unfettered," as it is restrained by a contractual requirement in the Unchained Terms of Service to only use such keys as agent and conduit of the custodian, with filing of appropriate paperwork.

Violation of this contractual restraint would be detected by vault monitoring and reported to the IRS accordingly. On this point, an accountholder's level of command over an Unchained IRA is less "unfettered" than a comparable legacy brokerage IRA, as an accountholder in a legacy brokerage IRA can write a check to himself from his account at any time using the checkbook which is in his possession at all times.

To put it plainly: an Unchained IRA creates less potential for tax abuse than a legacy financial system IRA and is more compliant with the rationale of McNulty than a legacy financial system IRA. The idea that an Unchained IRA somehow creates "constructive receipt" of IRA assets would necessarily also implicate nearly every legacy IRA currently in existence with the same problem.

An Unchained IRA is designed to allow clients private key control over their own bitcoin, while still providing transparency for tax reporting purposes. We believe it is the best solution available to eliminate trusted third parties while still remaining compliant with the tax laws around retirement accounts.



We designed the structure of the Unchained IRA to comply with all relevant tax law and believe this structure is as sustainable as any other type of retirement account under current law.