



## Client Conversations – Summer 2021

**Q: Bitcoin has received a lot of attention lately from the financial media and investors. What is it, and what are some of the risks?**

Many of our readers have noticed the fierce debate over Bitcoin recently. Is it an investment, digital gold, a scam, a network of computers, or even the future of currency? If you’re wondering what all the fuss is about, here is a brief introduction explaining what Bitcoin is and what it isn’t and detailing some of this emerging asset’s unique characteristics.

Bitcoin is a digital asset (sometimes called a *cryptocurrency*) supported by a peer-to-peer Internet-based ledger system. It was launched in 2009 by an individual or group known by the pseudonym Satoshi Nakamoto. Unlike printed currency or minted coins, Bitcoin is not created or maintained by a government. Whereas Bitcoin has been talked about as a currency to be used for buying and selling goods and services today, it is thought of increasingly as an investment.

**It is not a security.** Bitcoin is an asset like a direct investment in real estate, such as a home, or an investment in physical gold bars. Bitcoin is not an investment like a mutual fund or exchange-traded fund (ETF), both of which are regulated securities.

**It is volatile.** Over bitcoin’s history, its value has fluctuated wildly, with peak-to-trough drawdowns of greater than 50 percent in a single day. As speculation and confidence in bitcoin has ebbed and surged, this volatility has led to problems for people trying to make payments in bitcoins. At the beginning of 2017, one bitcoin was worth about \$1,000. In March 2021, the price topped \$60,000 for the first time. In between, bitcoin investors have been tested, over and over, by gut-wrenching price declines.

**It is difficult to manage.** The decentralized nature of the Bitcoin system makes it more challenging to follow the flow of money and for governmental regulators to get a handle on it. Major bitcoin exchanges located around the world have been subject to trade disruptions and the potential for



increased regulatory scrutiny. Also, unlike credit card charges, transactions are irreversible.

**It is not insured.** While securities accounts at U.S. brokerage firms are insured by the Securities Investor Protection Corporation (SIPC), and bank accounts at U.S. banks are insured by the Federal Deposit Insurance Corporation (FDIC), bitcoins held in a digital wallet or exchange do not have similar protections.

**It is vulnerable to security threats.** Fraud, technical glitches, hackers, cyberattacks, or malware could cause bitcoin exchanges to stop operating or permanently shut down. Login information needed to access exchanges can be forgotten, lost, or stolen by hackers or phishers. Once access is denied, it cannot be restored, resulting in the loss of one's bitcoin account.

**It may limit your recovery in the event of fraud or theft.** If fraud or theft results in you losing bitcoins, you may have limited recovery options. Third-party wallet services, payment processors, and bitcoin exchanges that play important roles in the use of bitcoins may be unregulated or using developing technologies vulnerable to hacking.

U.S. Treasury Secretary Janet Yellen has called Bitcoin "an extremely inefficient way of conducting transactions." But she also said it makes sense for central banks to consider a digital dollar, which could lead to faster, safer, and cheaper payments—a statement that could open the door to regulations from the Federal Reserve, Treasury, or the U.S. Securities and Exchange Commission (SEC) in the coming years.

The question of whether Bitcoin has a place in your portfolio is not an easy one to answer. At this time, Bitcoin is speculative, but it may become more desirable in the future and may provide a means of portfolio diversification. Overall, the universe of Bitcoin as an investment vehicle is small but could expand as consumers, Wall Street, and technology firms build momentum toward mainstream acceptance.

If you're considering investing in Bitcoin, be prepared to potentially lose much—if not all—of your investment. Proceed with caution, educate yourself, know the risks involved, and work with your financial and tax advisors to determine whether Bitcoin makes sense for your portfolio. Depending on how comfortable you are with volatility, it may be wiser to stay on the sidelines than to be on the field.

**Q: My husband and I want to start transferring ownership of our family business to our children. We've heard about family limited partnerships. What are they, and how do they work?**

A family limited partnership (FLP) is an agreement between family members involved in a trade or business. It divides rights to income, appreciation, and control and can hold investments, real estate, cash, or other business assets. An FLP can be a good solution to help transfer ownership of the family business to the next generation during your lifetime—all while allowing you to retain control of the business.



FLPs have two types of partners. General partners usually own the largest share of the business and oversee operations. They can gift as much as 99 percent of the limited partnership interests to the younger generation. Limited partners have no management responsibilities, and they are not liable for the debts of the FLP beyond their contributed capital. Limited partners, instead, buy shares of the business in exchange for dividends, interest, and profits the FLP generates. A powerful advantage of an FLP is that it can help cut federal gift and estate taxes.

**Leverage the annual gift tax exclusion and gift and estate tax applicable exclusion amount.**

Gifts of interests in an FLP are subject to federal (and state) gift tax. However, you can minimize your federal gift tax liability by taking advantage of the annual gift tax exclusion. Through 2021, gifts of limited partnership interest up to \$15,000, per recipient, are free from gift tax. Further, every taxpayer has a federal gift and estate tax applicable exclusion amount equal to the basic exclusion amount of \$11,700,000 in 2021. However, it is important to note that this amount could be reduced to a much lower level under the Biden administration. Transfers that do not fall under the annual gift tax exclusion will be free from gift tax to the extent of your available applicable exclusion amount.

**Take valuation discounts.** By discounting the value of limited partnership interests, more FLP interests can be gifted tax free to the next generation, which results in more assets passing out of an individual's taxable estate.

Limited partners have very restricted rights, such as the inability to transfer an interest, withdraw from the FLP, and take part in management. These restrictions can result in a business value significantly less than the value of the underlying assets, and the valuation discounts can be considerable, totaling as much as 35 percent. Discounts applied may include the minority interest discount and the lack of marketability discount.

**Remove future appreciation from your estate.** Business assets generally increase in value over time. Distributing your assets among family members through the FLP freezes the current value of your estate and keeps any future growth in value out of it later. You may have to pay gift tax now, but it will be less than the tax calculated on a higher future value.

**An FLP is a passthrough entity for income tax purposes.** The Internal Revenue Service (IRS) does not recognize an FLP as a taxpayer, and income of the FLP passes through to the partners. So, you can shift business income and future appreciation of the business assets to other members of your family in a lower tax bracket. Through 2025, subject to various limits, an individual taxpayer can deduct 20 percent of domestic qualified business income (not counting compensation) from the FLP.

Keep in mind, FLPs are subject to more restrictive rules than other forms of business entity to be valid in the eyes of states and the IRS. To determine whether an FLP is the right vehicle for your estate planning needs, consult with a qualified lawyer and tax accountant with experience in structuring FLPs.



## Legal Notice

This material is intended to be informational only and does not constitute legal, accounting, or tax advice. Please consult the appropriate legal, accounting, or tax advisor if you require such advice. The opinions expressed in this report are subject to change without notice. This material has been prepared or is distributed solely for informational purposes. It may not apply to all investors or all situations and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy. The information and statistics in this report are from sources believed to be reliable but are not guaranteed by CAPTRUST Financial Advisors to be accurate or complete. All publication rights reserved. None of the material in this publication may be reproduced in any form without the express written permission of CAPTRUST: 919.870.6822.

Â© 2026 CAPTRUST Financial Advisors