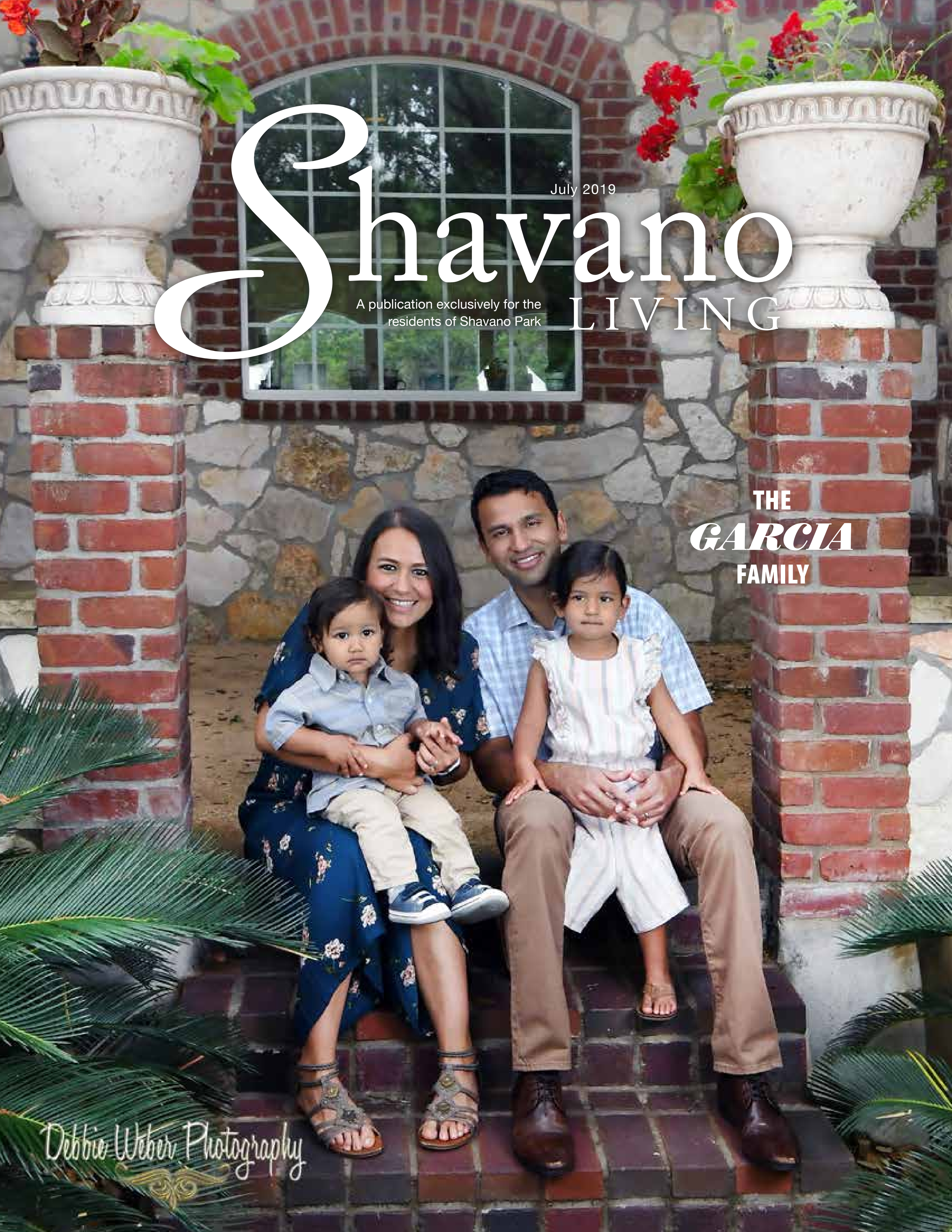
Shavano LIVING

July 2019

A publication exclusively for the residents of Shavano Park

THE *GARCIA* FAMILY



Surprising Taxes ON ALTERNATIVE INVESTMENTS

business
sen$e

By **Steven Bankler, CPA,**
Shavano Park Resident

As your net worth grows, your financial advisor may suggest diversifying your portfolio with alternative investments. These assets can include gold and real estate. Cryptocurrencies are another emerging investment area. The amount you invest and how you invest in these alternative areas, however, can affect your taxes in surprising ways.

Gold and other precious metals

Gold and other precious metals including silver, platinum, palladium, and titanium are common alternative investment vehicles. There's a big tax difference, however, in investing in physical gold versus gold stock. Physical gold including gold coins, bars, and bullion are classified by the IRS as collectibles and, when held for more than a year, are taxed at ordinary income rates with a maximum rate of 28 percent. Even with that maximum, however, holding gold as a collectible can be a costly investment.

Instead, many investors purchase physical gold as part of a retirement strategy through an IRS-approved Gold IRA program. These programs function much like other IRA funds: You can't sell the gold before you reach age 59½ without paying taxes and penalties and you are required to take distributions once you turn 70½.

Gold stocks, exchange-traded receipts (ETRs), and exchange-traded funds (ETFs) are other ways to invest, but they also hold specific tax considerations that should be weighed before jumping in.

Real estate and other land property

Invested in real estate? Be careful how the IRS classifies it. Directly owned property, real estate limited partnerships, real estate development corporations, and real estate investment trusts (REITs) are each treated differently when it comes to taxes.

REITs, in particular, may hold some surprising tax value when structured correctly. That's because REITs qualify for the new 20 percent deduction on pass-through income, which can lead to huge savings for high net-worth investors in particular.

Cryptocurrency

The trading of Bitcoin and other cryptocurrencies has been in constant flux. The digital currencies are not regulated or controlled by any bank, government or centralized financial authority. Instead, encryption techniques regulate their use over the Internet.

Before 2018, cryptocurrency exchanges could happen tax-free. It took some time for the IRS to figure out how to tax these forms of digital currency but, alas, Uncle Sam is making his move. Cryptocurrencies are now considered property, which means transactions can be subject to capital gains or losses with some very specific conditions. The bottom line: The entire area is a moving target when it comes to taxes.

Startups and businesses

A few years ago, crowdfunding regulation made it possible for nearly anyone to invest in pre-IPO startups and local businesses, even with limited funds. Although numerous websites make crowdfund investing look easy, the decision shouldn't be taken lightly. The IRS is still navigating this area and determining how it affects taxable income, which means careful tax planning is necessary to avoid surprises.

Alternative investments surpass these examples into other areas like hedge funds, mineral rights, equipment leasing, and peer-to-peer lending. These investments can be filled with both opportunities and pitfalls. Talk to a tax advisor before jumping in.

Steven Bankler has more than 40 years of experience in the accounting industry. Steven's expertise lies in consulting, planning, tax, and asset protection as well as exit strategy services for closely held businesses. He also provides litigation support (both as a testifying expert witness and a consulting expert), business negotiations and estate planning. For past Shavano Living tax tips and to learn more about Steven Bankler, CPA, Ltd., visit www.bankler.com.