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I recently picked up a client who is in the cryptocurrency industry and they are getting ready to bring a coin [\[1\]](#) to market. In the past, I've worked with eight companies who I've guided in the coin-to-market process. Usually, these businesses start as LLC's with one general partner with the rest of the members being limited partners.

Each partner contributes in one of four ways:

1. In Coin (which needs to be converted to US dollars to establish their basis in the partnership and in the coin that is going to be released).
2. In Cash
3. A combination of Coin and Cash
4. Or Real Property

The expenses that are incurred in the LLC are then added to the basis of the coin that is being produced. When the coin is brought to market, the investors can sell their coin for the going US rate, however most people convert their percentage of coin to a more stable cryptocurrency like Bitcoin. However, if done incorrectly, this can be a taxable event.

The tax bill coming out of the Ways and Means Committee would stop this practice, but until such a time as that section of the new tax bill becomes law, cryptocurrency can be traded under Section 1031, just like any other property. In 2014, the IRS issued [Notice 2014-21](#), deeming that cryptocurrency was to be treated like property. That

being said, unless specifically excluded, property can be exchanged for other property

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Now, there will be some people that will debate me. However, how are Bitcoin and Ethereum any different except that they are exchanged for different US dollars? Bitcoin and Ethereum are still cryptocurrency, so what difference does it make?

The client that I recently met was the majority owner of this cryptocurrency company. He was from the US and the rest of the partners were foreign. He came to me saying that he had made the decision to incorporate in Singapore. He engaged me and then sent me the company's tax strategy, as well as the costs associated with incorporating in Singapore.

The tax strategy made no sense and the company that was going to form the corporation and other things in Singapore (i.e. pad the bill), were going to cost him \$15,000 a year. Once I saw that, I sent him an email explaining that this company was charging more in yearly fees than what him or his company would save in taxes.

First of all, the corporation would be domiciled in Singapore, have a bank account there and a company address, all of which fall under the FATCA regulations for the majority US partner that would have to disclose this to US Government.

Not to mention Subpart F Income that would occur when the monies would be repatriated, and which can be taxed by as much as 30%. Then the foreign company couldn't do a 1031 of the newly created coin for an older, more stable one.

In short, the money that was paid to this company who is forming and domiciling the company in Singapore is making a killing. Not to mention that the money my client saves by paying only 7% in taxes in Singapore does them absolutely no good with a US Citizen as the majority partner.

The two partners had no idea and were appreciative that I got to work on this matter as soon as I was engaged, and on a weekend no less. I am going to be in Detroit this week, but I have a Skype appointment with them this afternoon. I am going to get

their ultimate goal, short and long-term plans and other basic information. I will

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[1] Slang term for cryptocurrency or virtual currency

Digital Currency

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