

BESPOKE X FORVIS MAZARS

# Wealth Planning for Bitcoin

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- 01 Crypto Basics

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- 02 Bitcoin vs. Other Cryptocurrencies

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- 03 Ways to Own Crypto

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- 04 Overview of Tax Treatment

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- 05 Risks of “HODLing”

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- 06 Securing / Transferring Digital Assets During Life

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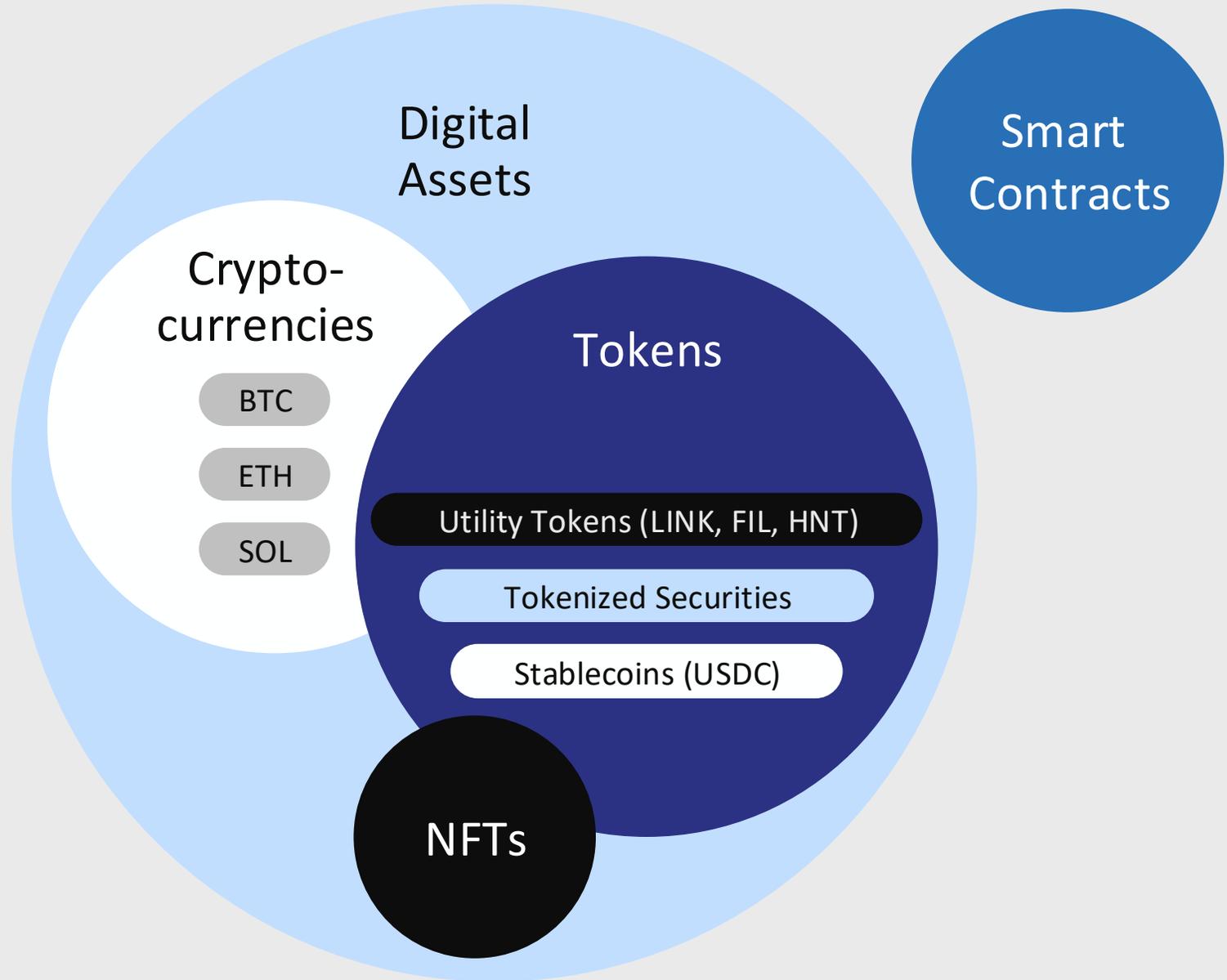
- 07 Advanced Strategies Using LLCs + Trust

# Crypto Basics

# Crypto Basics: Terminology

## Blockchain Examples and Their Cryptocurrencies

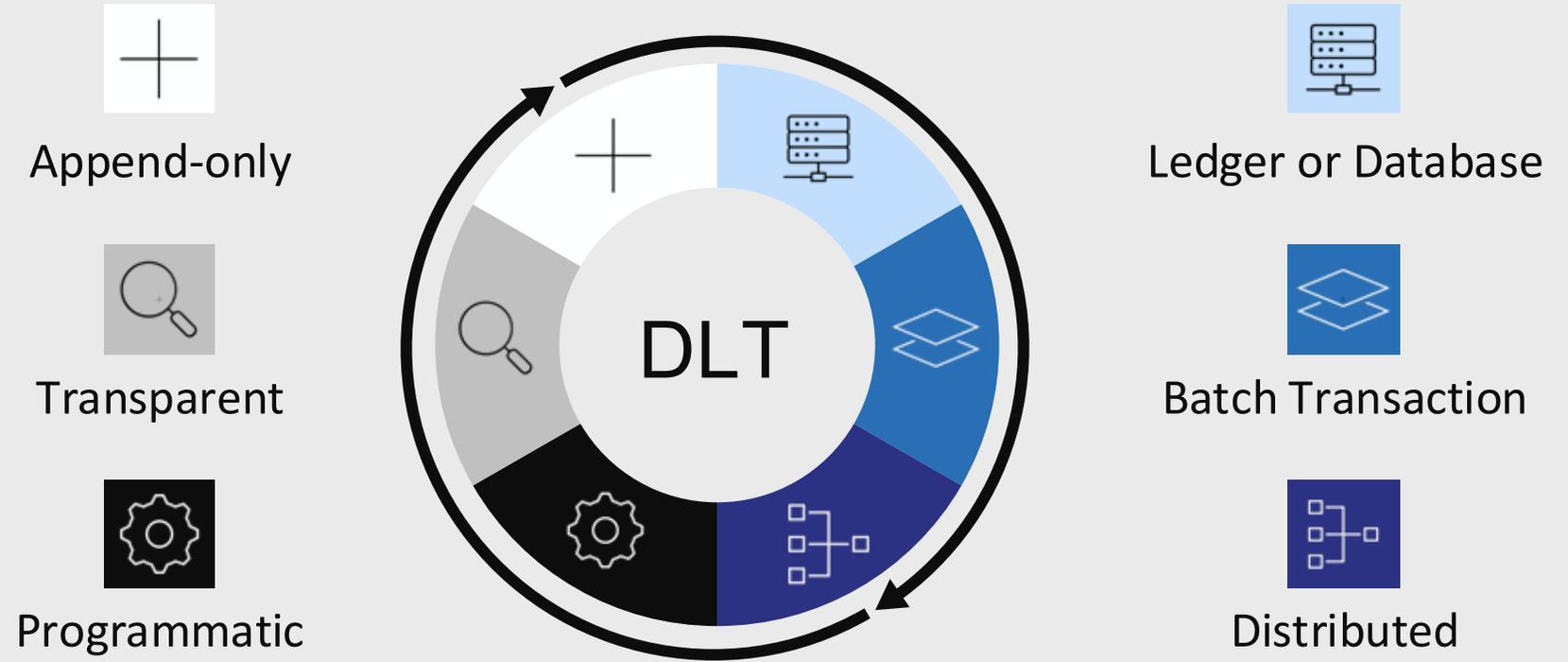
- ✓ Bitcoin (BTC)
- ✓ Ethereum (ETH, USDC,  
plus thousands more)
- ✓ Solana (SOL)
- ✓ Lots more...



# Blockchain or Distributed Ledger Technology (DLT)

What is Distributed Ledger Technology (DLT)?

Blockchain is a common form of DLT



# Blockchain or Distributed Ledger Technology (DLT)

Why use Distributed Ledger Technology?

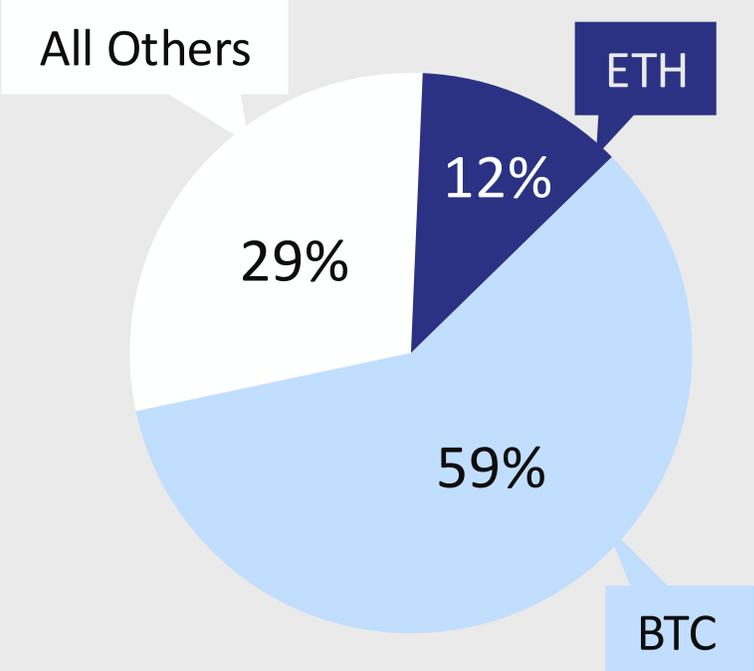
- Near-instantaneous settlement
- 24/7
- Reduced reliance on 3<sup>rd</sup> party intermediaries
- May also reduce fees
- No cap on amount that can be moved
- Use of cryptography
- Programmability

# Crypto Basics: The Market (CoinMarketCap) data 1.27.26

\$30.92 Million (cryptos)

- Compared to 3.4 million in August of 2024
- ~50k created per day (spike in April)
- 600+ exchanges
- 1000+ different chains

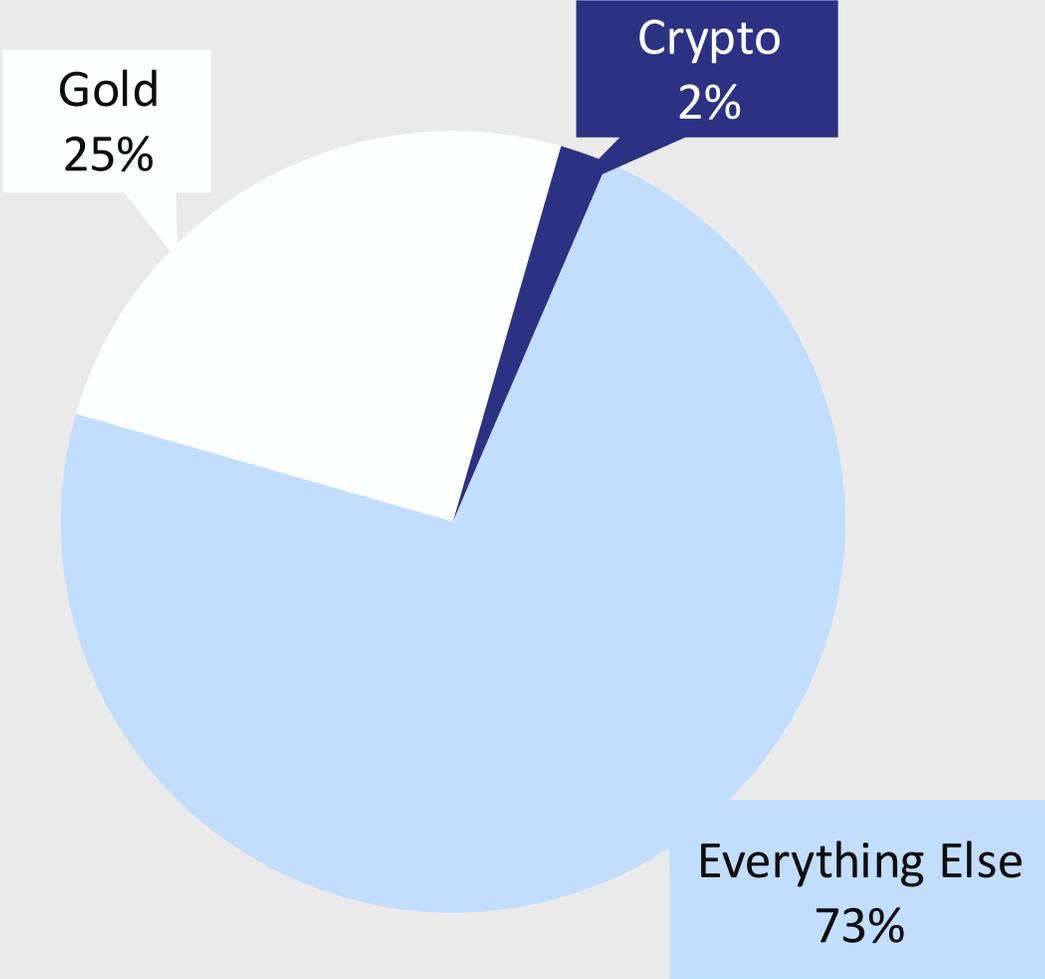
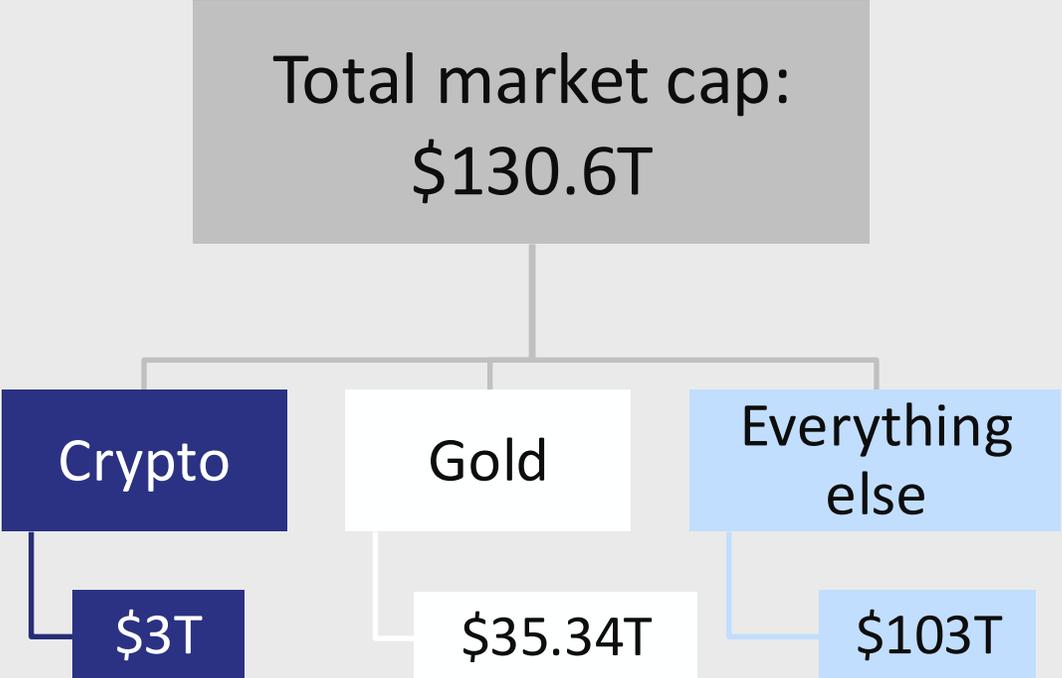
\$3.01 Trillion (market cap)



Market Overview

- Spot market
- Derivatives Market
- ETFs
- Staking
- Tokenization
- Decentralized Finance (DeFi)

# Comparing Market Caps



# Bitcoin vs. Other Cryptocurrencies

# Bitcoin vs. Other Cryptocurrencies

	BITCOIN	OTHERS
Monetary Policy	<ul style="list-style-type: none"><li>▪ Fixed, 21M supply cap</li><li>▪ Supply schedule encoded from the start and immutable.</li><li>▪ Programmatic, declining issuance via halvings with supply inflation approaching zero over time</li></ul>	<ul style="list-style-type: none"><li>▪ Typically uncapped or flexible</li><li>▪ Many have variable issuance</li><li>▪ Some are front-loaded allocations</li><li>▪ PoS systems can be net inflationary or deflationary</li></ul>
Origin Story	<ul style="list-style-type: none"><li>▪ No Initial Coin Offering “ICO”</li><li>▪ Pseudonymous creator who exited</li></ul>	<ul style="list-style-type: none"><li>▪ Often venture-backed with foundations,</li><li>▪ Often premined tokens or insider token sales</li><li>▪ Governance is often tied to large holders/teams</li></ul>
Primary Value Proposition	<ul style="list-style-type: none"><li>▪ Censorship resistant, globally neutral store of value and settlement asset</li></ul>	<ul style="list-style-type: none"><li>▪ Programmable platforms (smart contracts, DeFi, NFTs, apps or specialized use cases)</li></ul>

# Bitcoin vs. Other Cryptocurrencies

## Observations

### Scarcity

- A hard cap drives long-term scarcity premium whereas supply flexibility adds policy and dilution risk.
- Predictable disinflation is easier to model for long-term store of value theses.

### Origin

- A clearer origin story reduces securities risk, insider concentration, and perceived manipulation

### Investment Thesis

- BTC's thesis is monetary premium and a hedge against fiat currency debasement.
- Altcoins are typically tech platform bets with product-market fit and competitive execution risk.

# Serving Crypto Clients

Consider the following:



## Suspend Preconceived Notions

It is estimated that 55 million Americans own crypto, many of whom are law-abiding, taxpaying citizens.



## Tamper Fear

Many jurisdictions around the world have passed regulations related to cryptocurrency (EU – MiCA, US – GENIUS, etc.)  
Cryptocurrency is becoming more kosher and regulated by the day.



## Ethical Duty

As trusted advisors, we are bound by ethical code of conduct to serve our clients to the best of our ability.



## If we don't serve them...who will?

If trusted, board-certified advisors won't serve them, will they be forced to resort to TikTok influencers' advice?

# Ways to Own Crypto

# Common Primitive Ways to Own Crypto

	ETF / DATCO	EXCHANGE	SELF-CUSTODY
Complete Control of Assets	✗	✗	✓
“Lost password” Option	✓	✓	✗
KYC & AML	✓	✓	✗
Offline Accessibility	✗	✗	✓
Cybersecurity Threats	✓	✓	✓
Technical Know How	Low	Medium	High
Tax Complexity	High	Medium	High

# Common Advanced Ways to Own Crypto

	MULTI-SIG	MULTI-INSTITUTIONAL + MULTI-SIG	QUALIFIED CUSTODY
Self-Custody	✓	✓	✗
“Lost password” Option	✗	✗	✓
KYC & AML	✗	✓	✓
Offline Accessibility	✓	✓	✗
Cybersecurity Threats	✓	✓	✓
Single Point of Failure	✗	✗	✓
Technical Know How	High	High	High
Tax Complexity	High	High	High

coinbase EXCHANGE

**Exchange Overview**

Not the same

coinbase Institutional

# Doing is Learning

Getting your hands dirty can be an effective learning tool

An Example Way to Do This  
(confirm with compliance first):

1. Open an account with a centralized exchange (e.g. Coinbase).
2. Connect your bank account.
3. Deposit a small amount of money (an amount you are willing to lose).
4. Purchase a crypto token (e.g. ETH, SOL, XRP).

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# Doing is Learning

Getting your hands dirty can be an effective learning tool

5. Create a self-custodial wallet (e.g. MetaMask, Phantom).
6. Safely and securely store your private key.
7. Send your crypto token purchased in step #4 to your self-custodial wallet.
8. Trace your transaction on the blockchain using a blockchain explorer (e.g. etherscan.io).

# Overview of Tax Treatment

# Tax TL;DR: Crypto is PROPERTY

- Taxed as ORDINARY INCOME when received
  - As payment for goods / services
  - Through mining activity
  - As staking rewards
  - Even passively via “air drops”
- CAPITAL ASSETS subject to short- & long-term gain / loss rules
- Subject to typical GIFT & ESTATE TAX rules
  - (Including qualified appraisal requirements)

# Tax Compliance

- IRS Notice 2014-21 (March 2014)
  - Cryptocurrency is treated as property for U.S. tax purposes. (Not “currency.”)
  - Capital gains or losses apply when crypto is sold or exchanged.
  - Mining income & receipt of crypto for services is taxed as ordinary income (at FMV) when received.
- Revenue Ruling 2019-24 (October 2019)
  - Clarified tax treatment of hard forks and airdrops:
    - If hard fork occurs without an airdrop, there is no taxable income.
    - New crypto received via airdrop is taxable as ordinary income (FMV at receipt).

# Tax Compliance

- IRS FAQs on Virtual Currency (ongoing)
  - Reinforces prior guidance; new guidance on basis tracking (FIFO or specific ID methods).
- Crypto questions added to Form 1040 (2020)
- Enhanced reporting requirements (Infrastructure Investment and Jobs Act (2021))
  - Centralized Exchanges, brokers must report transactions, sales or exchanges to IRS (Form 1099-DA).
  - Reporting to customers (Form 1099-DA).
  - Expanded taxpayer disclosure requirements on Form 1040.

# Tax Compliance

- Tax Treatment of Staking Rewards (Rev. Rul. 2023-14)
  - Staking rewards taxable as ordinary income at the time they are received and controlled, not when they are later sold.
- Basis tracking, default rules (Rev. Proc. 2024-28)
  - Taxpayers must track basis on a per-wallet / per-account basis, rather than using a universal accounting method across multiple wallets or accounts. Each wallet / account must have its own basis calculations.
  - Absent specific tracking, FIFO applies.

# Tax Compliance (opportunity)

NOTE: Crypto is not subject to wash-sale rule – crypto may be sold at a loss (harvest capital loss) and may be immediately repurchased.\*

\*Still subject to economic substance rules.

# Risks of “HODLing”

# Risks

- Human frailty (endemic risks of self-management)
  - Single-signature self-custody creates a single point of failure.
  - Death or incapacity frequently results in permanent loss.
  - Self-custody provides no legally enforceable succession or continuity.
- The "five-dollar wrench"
- Exchange failures, hacks
- Protocol (smart contract, deFi code bugs)
- Scams, fraud, ransomware attacks
- Forced liquidation (cascading losses)
- Missed opportunities (tax, wealth planning, etc.)

# Securing & Transferring Digital Assets

# The Basics: Private Key Management

Crypto is a "bearer asset."

- Key material: the most important passwords in the world.
  - Control of the key material = control of the asset.
- Don't accept (controlling) key material from a client.
- Don't let client include key material in a will, trust, or other document.
- Do have client ensure raw key material is secure:
  - Sharded keys, on resilient material, distributed to trustworthy individuals, kept in fire / tamper / theft-resistant storage.
  - Geographic distribution

# Private Key Management

- Keeping wallets updated?
  - Firmware
  - Multiple wallets?
  - PIN codes
  - Backup seed phrases (Key Material)

# Collaborative / Custodial Key Management

- Exchange accounts ("hot wallets")
- Multisignature ("multi-sig") key controls
- Institutional collaborative multi-sig
- Custodial MPC (multi-party computation) accounts
- "Qualified" and non-qualified custody

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# Bitcoin Use Determines Key Control

- Spending Bitcoin: low value, high velocity → single-signature
- Savings Bitcoin: moderate value and velocity → multi-signature
- Legacy Bitcoin: high value, low velocity → fiduciary / qualified custody

Key takeaway:

- There is no single “correct” custody model. The correct model depends on purpose and desired outcomes.

# Custody Rule (SEC Rule 206(4)-2)

- Financial institution authorized to hold client funds and securities on behalf of RIA:
  - Banks and Savings Associations – U.S. banks or savings associations under federal or state regulation.
  - Broker-Dealers registered with SEC.
  - Futures Commission Merchants registered with CFTC.
  - Foreign Financial Institutions meeting SEC requirements and hold assets in a jurisdiction with comparable regulations.
- Must maintain segregated accounts, provide periodic account statements directly to clients, & meet regulatory standards to safeguard assets.

# Trust-Based Planning (Funding)

- Assignment of property.

Include specific reference to tangible & intangible property regarding digital assets:

## Tangible:

“My tangible personal property includes all of my jewelry, clothing, household furniture, furnishings and fixtures, chinaware, silver, photographs, works of art, books, boats, automobiles, sporting goods, electronic equipment, computer hard drives and peripheral accessories, cryptoasset wallets and cryptographic signature devices, blockchain nodes or similar devices, musical instruments, artifacts relating to my hobbies, and all other tangible articles of personal property that I now own or later acquire, regardless of how they are acquired or the record title in which they are held.”

# Trust-Based Planning (Funding)

- Assignment of property

Include specific reference to tangible & intangible property regarding digital assets:

Intangible:

“My intangible personal property includes all of my sent and received emails, email accounts, digital music, digital photographs, digital videos, gaming accounts, cryptographic assets (specifically including both fungible and nonfungible cryptographic tokens), vested staking rewards, cryptoasset wallets and vaults, software licenses, social-network accounts, file-sharing accounts, financial accounts, domain registrations, Domain Name System (DNS) service accounts, blogs, listservs, web-hosting accounts, tax-preparation service accounts, online stores and auction sites, online accounts, any similar digital asset that currently exists or may be developed as technology advances, and all other intangible personal property that I now own or later acquire, regardless of how they are acquired or the record title in which they are held.”

# Possession vs. Ownership

- Bitcoin is a bearer asset.
- Private keys control possession.
- Law recognizes ownership through title.
- Tax planning, asset protection, and inheritance require titled ownership.

# Fiduciary Standards

## Address Prudent Investor Rule:

CO Rev Stat § 15-1.1-101(b)

“The prudent investor rule, a default rule, may be expanded, restricted, eliminated, or otherwise altered by the provisions of a trust. A trustee is not liable to a beneficiary to the extent that the trustee acted in reasonable reliance on the provisions of the trust.”

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# Fiduciary Standards—PIR

- Waive duty to diversify if settlor intends to hold a substantial portion of its assets in bitcoin or crypto.
- Explicitly authorize trustee to retain a concentrated position in digital assets (similar to how some trusts are drafted for family businesses or unique investments).
- Appoint a special purpose trustee /

investment advisor with expertise in crypto to guide or direct investment decisions.

# Fiduciary Standards—Key Material

- Specify how trustee should hold private keys:
  - Single-signature cold storage (trustee = single point of failure / risk)
  - Multi-signature wallets (must trustee control quorum?)
  - Institutional custodians (see Custody Rule, above)
- Allow trustee to delegate custody to a specialized crypto custodian / asset manager under Custody Rule.
- Add threshold dollar value at which trustee must increase custodial / key security  
( + index to inflation)

# Fiduciary Powers

- Grant authority to buy, sell, stake, lend, & manage digital assets.
- Allow trustee to hire crypto investment advisors or delegate certain responsibilities to qualified managers.
- Authorize staking or participation in blockchain governance activities.
- Provide guidance to check for periodic airdrops and / or forked rewards.

# Managing Beneficial Interests

- Allow trustee to pool crypto for beneficiaries & report ratably (simplify custody, reduce errors).
- Guidance to allow trustee to distribute in cash or in-kind.
- Beneficiaries to complete crypto security training before receiving in-kind distributions?

# Future- proofing

- Expressly permit decanting & trust protector's powers to amend to address changing circumstances, evolving technology, etc.
- Keep resitusing on the table (Domestic or international).

# Advanced Strategies

# LLCs

## + Trusts

- Layered structures preserve sovereignty at a generational scale.
- Properly designed entities allow decision-making influence without direct custody,
- Centralize family economic activity (e.g., crypto assets) within LLC; shift LLC interests to trust(s):
  - Revocable trust (includable in estate)
  - Lifetime QTIP ("poorer spouse" estate balancing, satisfying marital agreements)

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# LLCs + Trusts

- SLAT (completed gifting; lifetime "family / bypass / credit shelter trust")
- SLANT (completed gift NON-GRANTOR lifetime family trust)
- GRATs
- Charitable trusts (CLATs, CRTs, & multi-layer strategies)
- Upstream formula gifts...

# LLCs

## + Trusts

- Shifts crypto-related responsibilities away from trustee; holds them in the LLC.
- Trustee only manages & reports on LLC interests (& distributions up from LLC to trusts).
- Client as Investment Trust Advisor directs trustee as to trust's LLC investment.
  - Acquisitions, sales, etc.
  - Power to remove / replace LLC managers

# Bifurcated Management LLCs

- CO Rev Stat §7–80–401: OA may permit management by managers (instead of members).
- CO Rev Stat §7–80–402: A company may have more than one manager as appointed by members.
- CO Rev Stat §7–80–403: A company may appoint various officers & agents for defined acts.
  - Client = Investment Manager (investment powers only)
  - Independent Party = General Manager (control over asset movement, distributions to members, etc.)
  - + If necessary: Administrative Manager (holds situs)

# Avoiding §§2036, 2038, 2041

## Key issues:

- Sever "dominion and control" over LLC assets (IRC §§ 2036, 2038).
- Prevent a general power of appointment (IRC §§ 2041).
- Drafting tips:
  - Limit Investment Manager's to "investment decisions" only, not asset movement or distributions.
  - Ensure control over distributions and asset movement is in the hands of an independent party (General Manager or a third-party trustee).
  - Prohibit unilateral decisions that could allow the investment manager to personally benefit from LLC assets.

# Defining the General Manager

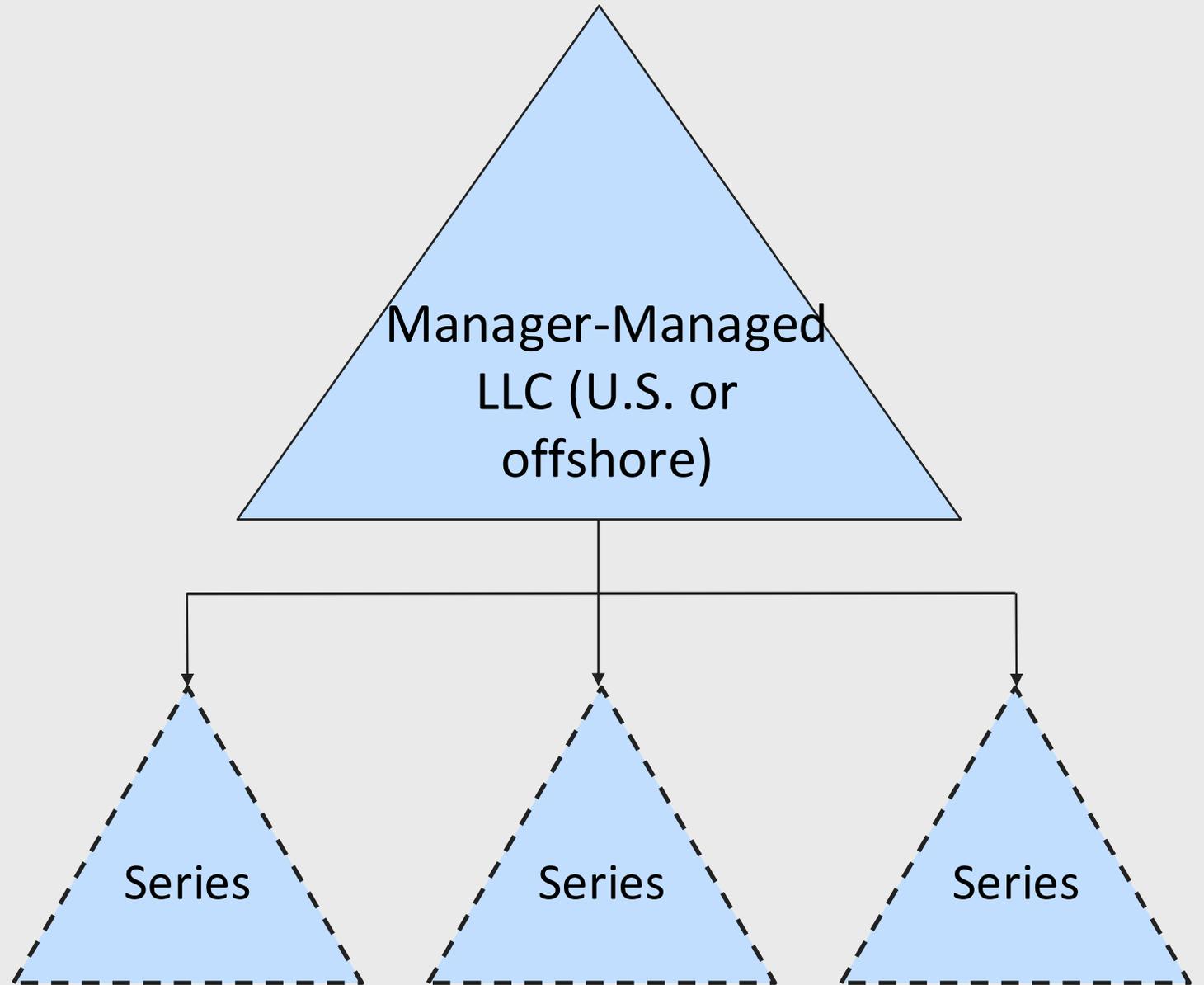
Sample language:

"The General Manager shall be an Independent Party.\* The General Manager shall have exclusive control over all administrative, operational, and distribution decisions of the LLC, including but not limited to the withdrawal, transfer, and allocation of LLC assets. The Investment Manager shall not have any authority over such matters."

\* Term is defined in definitions section as not related or subordinate to the Investment Manager as defined in Treasury Regulation § 1.672-2.

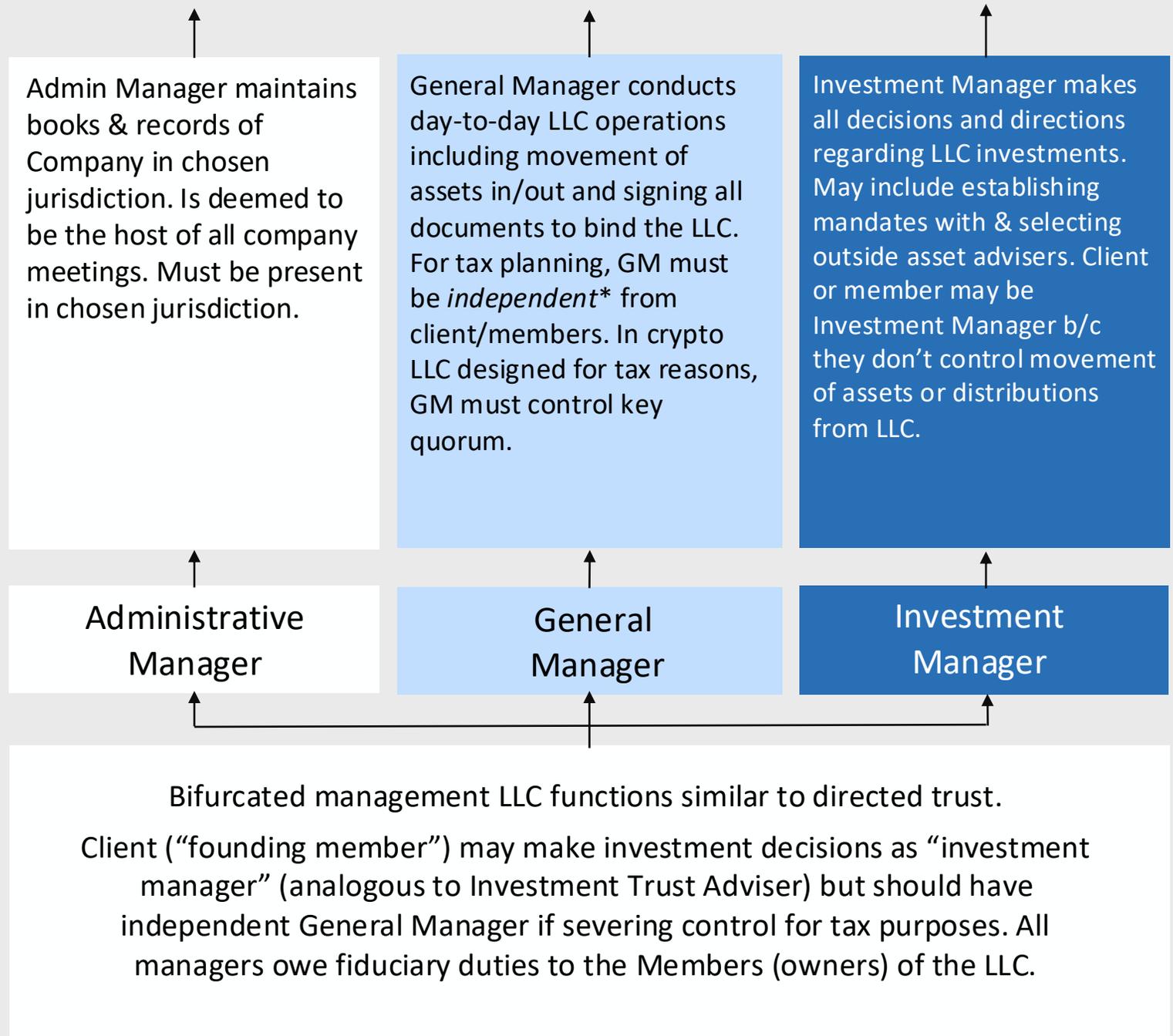
# LLC–General Structure

May be established as "series" LLC with each series functioning as a subsidiary under the LLC. Each series may have its own assets, liabilities, and members (owners).



# LLC – Management Structure

- Bifurcated (or further divided) management:
  - Investment Manager
  - General Manager
  - Administrative Manager



# Shifting LLC Interests to Trusts

LLC (or series) interests transferred to one or more trusts:

- RLT
- HEET
- QTIP
- GRAT
- SLAT / SLANT
- CRT
- Dynasty
- + Upstream shifting...

The LLC membership interests (equity) may be owned by individuals, trusts, or other entities. In most situations the LLC will be formed by an individual (client) and funded with various assets. LLC interests will be transferred to other entities or trusts as part of planning process.

“Members” (owners) have no day-to-day management rights in a manager-managed LLC, but may remove & replace managers. Members sign the LLC Operating Agreement and perform other functions reserved by Members. Members may be divided into voting and non-voting.



# Getting in Touch

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