A FRAMEWORK FOR BITCOIN-BASED PHILANTHROPY

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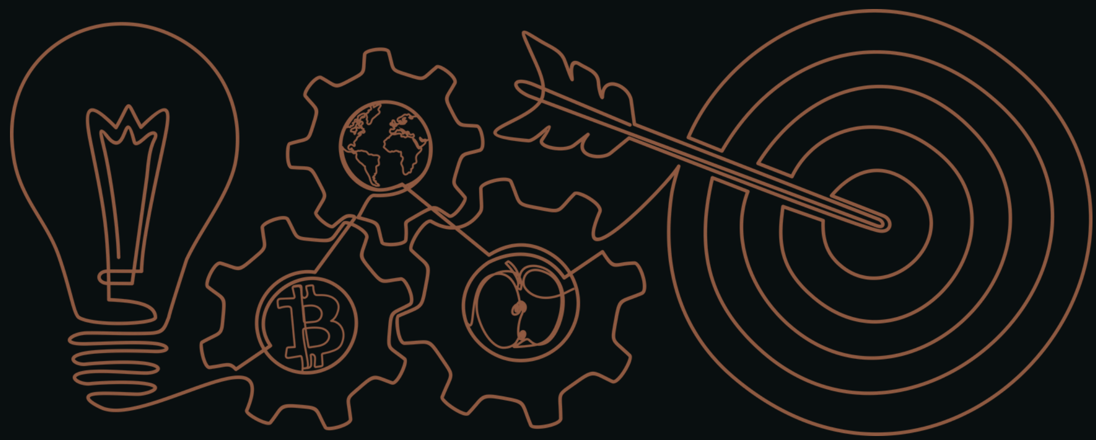

For those who acquired bitcoin before 2018 (and even for those who acquired bitcoin in 2018 and later), the wealth now associated with their bitcoin may far exceed their wildest expectations. Nonetheless, these same bitcoiners often are HODLers (short for Hold On For Dear Life) because they believe their coins will generate ever increasing wealth in the years to come. Given this paradox, bitcoiners may want to consider strategic philanthropy for some of their coins.

Strategic philanthropy with bitcoin not only takes advantage of the U.S. tax code that encourages philanthropy, but it is philanthropy structured in a way that takes advantage of the anticipated increase in value of the bitcoins over time.

However, bitcoiners must exercise caution. Of the relatively small but growing number of charities that accept bitcoin, most require immediate liquidation of the bitcoin upon contribution, thereby stunting the benefit to charity of bitcoin's future growth. Thus, to accomplish strategic philanthropy the bitcoiner must work with advisors like The Bespoke Group who have pioneered this strategy and can structure the philanthropy for sales of the contributed bitcoin over a prolonged period of time and in a manner that funds the bitcoiner's philanthropic giving each year, while retaining as much of the bitcoin stack as possible to benefit from future appreciation of the asset.

At Bespoke, we believe this is best accomplished with the following tools.

CHARITABLE REMAINDER TRUST FOR CASH FLOW

Bitcoin OGs typically have little or no income tax basis in their coins. Thus, selling bitcoins typically results in capital gain tax liability on the full value of the coins sold, or 23.8% federal capital gain tax plus state capital gain tax, if any. For example, a Californian who sells significant low-basis bitcoin faces a usurious 37.1% capital gain tax rate!

Contributing low-basis coins to a Charitable Remainder Trust (CRT) is the simplest way to defer capital gain tax recognition while also producing cash flow to the bitcoiner. A CRT is an IRS-approved structure that pays a fixed percentage distribution to its creator – no less frequently than annually – based upon the value of the trust assets at time of contribution (i.e., an annuity trust) or on the prior January 1 value (i.e., a unitrust). Note that there are several nuances to these two basic types of CRTs, which are beyond the scope of this article.

Because the trust is a tax-free vehicle, the sale of the coins inside the CRT does not generate tax. The capital gain tax liability is only realized when it flows through to the donor via the distributions, thus deferring the tax potentially for the lifetime of the donor (or lifetimes, in the case of married donors) or up to 20 years, depending upon the donor's life expectancy. Upon the donor's death, the trust balance, commonly referred to as the remainder, goes to the charity or charities of the donor's choice. The charity, as a tax-exempt entity, receives the assets free of any remaining tax.

Additionally, at least 10% of the hypothetical remainder value at inception (i.e., the hypothetical value remaining after the above-described payouts) must go to charity. The donor receives an upfront charitable income tax deduction for the value of this hypothetical remainder interest to charity. It's hypothetical because the IRS calculates the remainder value at the time of creation by assuming the trust assets will grow at the government-issued interest rate at trust inception. If trust assets grow at a higher rate, more will be left for charity. Conversely, if trust assets grow at a lesser rate, less will be left for charity. But even if the trust depletes all its assets and there is no remainder for charity, the trust does not fail unless the trustee breached its fiduciary duty in overseeing the trust.

For example, suppose OG Bitcoiner (OGB) contributes coins worth $10 million to a CRT when the assumed trust growth rate is 5%. If the trust is designed to produce the minimum 10% remainder, OGB will receive a roughly $1Million charitable income tax deduction for the tax year of the contribution. OGB will also receive annual trust distributions starting at approximately $1.1 Million, assuming OGB is 40 at the time of trust creation, a 15% annual growth rate, and the trust is a 20-year unitrust (since OGB's life expectancy exceeds 30 years, it is not possible to structure the trust as a lifetime trust while meeting the 10% remainder requirement).

Significantly, as the price of bitcoin increases, OGB's annual distributions will also increase to approx. $1.845 Million per year in year 20, with the total of all distributions equal to approx. $28.5 Million --- or $20.2 Million of after-tax cash flow (assuming a 30% combined federal and state capital gain tax rate) – in addition to a $17.2 Million remainder for charity. The increasing annual distribution acts as a hedge against inflation going forward. The anticipated distribution schedule for this example follows:

Year	Initial Balance	Principal Growth	Income	Distribution	Remainder
1	$10,000,000	$1,376,208	$0	$1,100,371	$10,275,837
2	$10,275,837	$1,414,169	$0	$1,130,723	$10,559,283
3	$10,559,283	$1,453,177	$0	$1,161,913	$10,850,548
4	$10,850,548	$1,493,261	$0	$1,193,963	$11,149,846
5	$11,149,846	$1,534,451	$0	$1,226,897	$11,457,400
6	$11,457,400	$1,576,777	$0	$1,260,739	$11,773,438
7	$11,773,438	$1,620,270	$0	$1,295,515	$12,098,193
8	$12,098,193	$1,664,963	$0	$1,331,250	$12,431,907
9	$12,431,907	$1,710,889	$0	$1,367,971	$12,774,825
10	$12,774,825	$1,758,082	$0	$1,405,705	$13,127,202
11	$13,127,202	$1,806,576	$0	$1,444,479	$13,489,299
12	$13,489,299	$1,856,409	$0	$1,484,323	$13,861,385
13	$13,861,385	$1,907,615	$0	$1,525,267	$14,243,733
14	$14,243,733	$1,960,234	$0	$1,567,339	$14,636,628
15	$14,636,628	$2,014,305	$0	$1,610,572	$15,040,361
16	$15,040,361	$2,069,867	$0	$1,654,998	$15,455,230
17	$15,455,230	$2,126,962	$0	$1,700,649	$15,881,543
18	$15,881,543	$2,185,631	$0	$1,747,559	$16,319,615
19	$16,319,615	$2,245,919	$0	$1,795,763	$16,769,771
20	$16,769,771	$2,307,870	$0	$1,845,297	$17,232,344
Summary:		$36,083,637	$0	$28,851,293	$17,232,344

Alternatively, if OGB is 55 at the time of trust creation, OGB will again receive just over a $1Million charitable income tax deduction for the tax year of the contribution, plus annual trust distributions starting at approximately $1.1 Million. In this scenario, however, annual trust distributions will increase to $2.2 Million in year 27, or at OGB's life expectancy, with the total of all assumed distributions exceeding $43.2 Million – or $30.2 Million of after-tax cash flow (assuming a 30% combined federal and state capital gain rate) in addition to a $20.6 Million remainder for charity. Again, the increasing annual distribution acts as a hedge against inflation going forward. The anticipated distribution schedule for this example follows:

Year	Initial Balance	Principal Growth	Income	Distribution	Remainder
1	$10,000,000	$1,375,830	$0	$1,103,730	$10,272,100
2	$10,272,100	$1,413,267	$0	$1,133,763	$10,551,605
3	$10,551,605	$1,451,722	$0	$1,164,612	$10,838,714
4	$10,838,714	$1,491,223	$0	$1,196,301	$11,133,636
5	$11,133,636	$1,531,799	$0	$1,228,853	$11,436,583
6	$11,436,583	$1,573,480	$0	$1,262,290	$11,747,772
7	$11,747,772	$1,616,294	$0	$1,296,637	$12,067,430
8	$12,067,430	$1,660,274	$0	$1,331,918	$12,395,785
9	$12,395,785	$1,705,450	$0	$1,368,160	$12,733,075
10	$12,733,075	$1,751,855	$0	$1,405,388	$13,079,542
11	$13,079,542	$1,799,523	$0	$1,443,628	$13,435,437
12	$13,435,437	$1,848,488	$0	$1,482,910	$13,801,016
13	$13,801,016	$1,898,786	$0	$1,523,260	$14,176,542
14	$14,176,542	$1,950,452	$0	$1,564,707	$14,562,286
15	$14,562,286	$2,003,524	$0	$1,607,283	$14,958,527
16	$14,958,527	$2,058,040	$0	$1,651,017	$15,365,549
17	$15,365,549	$2,114,039	$0	$1,695,942	$15,783,646
18	$15,783,646	$2,171,562	$0	$1,742,088	$16,213,119

Year	Initial Balance	Principal Growth	Income	Distribution	Remainder
19	$16,213,119	$2,230,650	$0	$1,789,491	$16,654,279
20	$16,654,279	$2,291,346	$0	$1,838,183	$17,107,443
21	$17,107,443	$2,353,694	$0	$1,888,200	$17,572,937
22	$17,572,937	$2,417,738	$0	$1,939,578	$18,051,097
23	$18,051,097	$2,483,525	$0	$1,992,354	$18,542,268
24	$18,542,268	$2,551,102	$0	$2,046,566	$19,046,804
25	$19,046,804	$2,620,517	$0	$2,102,253	$19,565,068
26	$19,565,068	$2,691,821	$0	$2,159,455	$20,097,434
27	$20,097,434	$2,765,066	$0	$2,218,214	$20,644,286
Summary:		$53,821,066	$0	$43,176,780	$20,644,286

Significantly, the trust need not sell all the bitcoin upon contribution. In fact, the trust must only sell enough bitcoin to satisfy the payouts; assuming the value of the coins increases over time, that increased value can be captured in increasing distributions if the trust is structured as a unitrust, as in the previous examples. Alternatively, if the trust is structured as an annuity trust, the increased value will inure to the benefit of the remainder charity or charities.

Caution must be exercised to ensure that there is a transfer of ownership from OGB to the trust, by the transfer to a qualified custodian using an account in the name of the trustee on behalf of the CRT. Continued control by OGB, e.g., via self-custody, will not establish the transfer necessary to effectuate the trust.

CHARITABLE REMAINDER TRUST COMBINED WITH TAX-EFFICIENT INVESTING

The donor may invest the distributions from the Charitable Remainder Trust as the donor sees fit, but the income produced from these investments will be subject to tax unless made in tax-deferred or tax-free vehicles. One type of tax-free vehicle worth consideration is private placement life insurance or PPLI.

Unlike traditional life insurance, PPLI offers much broader investment options. However, due to the life insurance "wrapper" of PPLI, the gains inside the PPLI policy are not subject to income tax. Moreover, the donor may withdraw the cash value up to premiums paid without penalty, and the donor may take further withdrawals in the form of loans. In this way, the donor can access tax-free income during the donor's lifetime.

PPLI owners and their advisors either choose specific insurance dedicated funds (IDFs) or select money managers (i.e., separately managed accounts, or SMAs) to handle their portfolios within the policies, which are typically variable universal life policies. Possible investments are quite broad, including venture capital, real estate, private equity funds, private credit, or any fund with an extremely high turnover rate that generates large short-term capital gains.

There are limitations, however. PPLIs must still meet IRS standards for investor control, insurance, and diversification. If the policy holds IDFs, this happens at the IDF level; if the policy holds a separate managed account (SMA), this must happen at the SMA level.

Investor control

Policy owners cannot influence (directly or indirectly) the specific investment decisions of the fund managers. If the owner exercises too much control, the IRS may eliminate the tax advantages of the policy.

Insurance standards

PPLI must satisfy the detailed requirements of life insurance under the tax code; again, failure to meet these requirements may eliminate the tax advantages of the policy.

Diversification requirements

Investments must also meet diversification rules which, among other things, require that the portfolio contain at least five distinct investments to fully qualify as life insurance. Otherwise, the IRS will disqualify the policy, and the policy's owner will lose the tax advantages of life insurance.

Generally, tax-free accessibility requires that the policy avoid the modified endowment contract rules (which limit the first seven years' premiums), and CRT distributions can be structured to meet these premium payments. Further, for asset protection and estate tax avoidance reasons, it is generally beneficial to have the insurance owned by an irrevocable trust in which the donor is a beneficiary (in a state that permits self-settled trusts), with the trust designed to last multiple generations.

For example, suppose 40-year-old OGB decides to invest some of the CRT's cumulative $20.2 Million net distributions (net of assumed combined federal and state capital gain rate of 30%) into a PPLI policy. The "Net After Tax" numbers in the following table are the amounts that would be available annually for premium payments:

Year	Initial Balance	Principal Growth	Income	Distribution	Remainder	Tax	Net After Tax
1	$10,000,000	$1,376,208	$0	$1,100,371	$10,275,837	$330,111	$770,260
2	$10,275,837	$1,414,169	$0	$1,130,723	$10,559,283	$339,217	$791,506
3	$10,559,283	$1,453,177	$0	$1,161,913	$10,850,548	$348,574	$813,339
4	$10,850,548	$1,493,261	$0	$1,193,963	$11,149,846	$358,189	$835,774
5	$11,149,846	$1,534,451	$0	$1,226,897	$11,457,400	$368,069	$858,828
6	$11,457,400	$1,576,777	$0	$1,260,739	$11,773,438	$378,222	$882,517
7	$11,773,438	$1,620,270	$0	$1,295,515	$12,098,193	$388,655	$906,860
8	$12,098,193	$1,664,963	$0	$1,331,250	$12,431,907	$399,375	$931,875
9	$12,431,907	$1,710,889	$0	$1,367,971	$12,774,825	$410,391	$957,580
10	$12,774,825	$1,758,082	$0	$1,405,705	$13,127,202	$421,711	$983,993
11	$13,127,202	$1,806,576	$0	$1,444,479	$13,489,299	$433,344	$1,011,135
12	$13,489,299	$1,856,409	$0	$1,484,323	$13,861,385	$445,297	$1,039,026
13	$13,861,385	$1,907,615	$0	$1,525,267	$14,243,733	$457,580	$1,067,687
14	$14,243,733	$1,960,234	$0	$1,567,339	$14,636,628	$470,202	$1,097,137
15	$14,636,628	$2,014,305	$0	$1,610,572	$15,040,361	$483,172	$1,127,401
16	$15,040,361	$2,069,867	$0	$1,654,998	$15,455,230	$496,499	$1,158,498
17	$15,455,230	$2,126,962	$0	$1,700,649	$15,881,543	$510,195	$1,190,454
18	$15,881,543	$2,185,631	$0	$1,747,559	$16,319,615	$524,268	$1,223,291
19	$16,319,615	$2,245,919	$0	$1,795,763	$16,769,771	$538,729	$1,257,034
20	$16,769,771	$2,307,870	$0	$1,845,297	$17,232,344	$553,589	$1,291,708
Summary:		$36,083,637	$0	$28,851,293	$17,232,344		$20,195,905

If OGB contributes one half of the first ten years' net distributions as premium payments, makes no premium payments in years 11 – 20, and then withdraws $500,000 (adjusted for inflation) annually beginning at age 60 through age 94, assuming a 7% average annual return within the PPLI policy, the following illustrates the anticipated distributions and death benefit for the policy through age 94[1]:

Year	Age	Premium Deposit/Withdrawl	Investment Account Value	Insurance Proceeds
1	40	$385,130	$395,306	$8,500,720
2	41	$395,753	$826,233	$8,931,647
3	42	$406,670	$1,295,051	$9,400,465
4	43	$417,887	$1,805,834	$9,911,248
5	44	$429,414	$2,360,806	$10,466,220
6	45	$441,259	$2,963,426	$11,068,840
7	46	$453,430	$3,617,186	$11,722,600
8	47	$465,938	$4,326,949	$12,432,363
9	48	$478,790	$5,095,365	$13,200,779
10	49	$491,997	$5,926,557	$14,031,971
11	50	-	$6,307,089	$11,668,114
12	51	-	$6,712,120	$11,947,573
13	52	-	$7,143,193	$12,214,860
14	53	-	$7,602,077	$12,467,406
15	54	-	$8,090,644	$12,702,312
16	55	-	$8,610,823	$12,916,235
17	56	-	$9,164,356	$13,379,960
18	57	-	$9,753,395	$13,849,821
19	58	-	$10,380,206	$14,324,685
20	59	-	$11,047,409	$14,803,527

[1] Our friends at Golconda Partners LLC, PPLI thought leaders, graciously ran the numbers to illustrate these PPLI policies given the various assumptions I provided. Thus, any errors should be attributable to me

Year	Age	Premium Deposit/Withdrawl	Investment Account Value	Insurance Proceeds
21	60	($500,000)	$11,250,341	$14,625,444
22	61	($515,000)	$11,450,336	$14,656,431
23	62	($530,450)	$11,646,753	$14,674,909
24	63	($546,364)	$11,838,904	$14,680,241
25	64	($562,754)	$12,026,003	$14,671,723
26	65	($579,637)	$12,207,272	$14,648,726
27	66	($597,026)	$12,381,268	$14,733,708
28	67	($614,937)	$12,546,783	$14,819,881
29	68	($633,385)	$12,701,668	$14,984,980
30	69	($652,387)	$12,844,435	$15,125,192
31	70	($671,958)	$12,973,418	$15,238,172
32	71	($692,117)	$13,088,870	$15,164,148
33	72	($712,880)	$13,189,687	$15,043,289
34	73	($734,267	$13,274,867	$14,873,310
35	74	($756,295)	$13,343,580	$14,652,086
36	75	($778,984)	$13,395,234	$14,377,695
37	76	($802,353)	$13,422,425	$14,453,595
38	77	($826,424)	$13,422,356	$14,503,072
39	78	($851,217)	$13,391,964	$14,522,991
40	79	($876,753)	$13,327,852	$14,509,869
41	80	($903,056)	$13,226,225	$14,459,810
42	81	($930,147)	$13,082,971	$14,368,585
43	82	($958,052)	$12,893,612	$14,231,588
44	83	($986,793)	$12,653,166	$14,043,683
45	84	($1,016,397)	$12,356,108	$13,799,170

Year	Age	Premium Deposit/Withdrawl	Investment Account Value	Insurance Proceeds
46	85	($1,046,889)	$11,996,324	$13,491,732
47	86	($1,078,296)	$11,566,192	$13,113,473
48	87	($1,110,645)	$11,057,941	$12,656,345
49	88	($1,143,964)	$10,463,071	$12,111,535
50	89	($1,178,283)	$9,772,641	$11,469,773
51	90	($1,213,631)	$8,976,018	$10,720,019
52	91	($1,250,040)	$8,093,854	$9,526,037
53	92	($1,287,541)	$7,128,286	$8,229,916
54	93	($1,326,168)	$6,083,772	$6,836,502
55	94	($1,365,953)	$4,967,434	$5,353,043
56	95	-	$4,988,797	$4,988,797
57	96	-	$5,009,979	$5,009,979
58	97	-	$5,030,973	$5,030,973
59	98	-	$5,051,769	$5,051,769
60	99	-	$5,072,359	$5,072,359

This scenario would generate for OGB at least $500,000 of increasing cash flow beginning in year 11, when OGB is 50, for cumulative tax-free distributions of $30.2 Million from the policy – plus the $15.8M after-tax distributions from the CRT in years 1 – 20 – for cumulative tax-free and after-tax cash flow of $46 Million. In addition, the policy would create an additional $5 Million of tax-free wealth for OGB's family.

What if OGB contributes one half of all 20 years' net distributions as premium payments and then withdraws $800,000 annually (adjusted for inflation) beginning at age 60 through age 94, also assuming a 7% average annual return within a PPLI policy? The following illustrates the anticipated cash balance and death benefit for this example policy:

Year	Age	Premium Deposit/Withdrawl	Investment Account Value	Insurance Proceeds
1	40	$385,130	$394,736	$9,774,576
2	41	$395,753	$824,896	$10,204,736
3	42	$406,670	$1,292,682	$10,672,522
4	43	$417,887	$1,802,360	$11,182,200
5	44	$429,414	$2,356,019	$11,735,859
6	45	$441,259	$2,957,148	$12,336,988
7	46	$453,430	$3,609,239	$12,989,079
8	47	$465,938	$4,317,331	$13,697,171
9	48	$478,790	$5,083,867	$14,463,707
10	49	$491,997	$5,912,949	$15,292,789
11	50	$505,568	$6,812,557	$16,192,397
12	51	$519,513	$7,784,532	$17,164,372
13	52	$533,843	$8,833,754	$18,213,594
14	53	$548,569	$9,965,621	$19,345,461
15	54	$563,700	$11,185,815	$20,565,655
16	55	$579,249	$12,500,168	$21,880,008
17	56	$595,227	$13,915,234	$23,295,074
18	57	$611,646	$15,437,770	$24,817,610
19	58	$628,517	$17,074,833	$26,454,673
20	59	$645,854	$18,834,350	$28,214,190
21	60	($800,000)	$19,236,250	$25,007,125
22	61	($824,000)	$19,638,543	$25,137,335
23	62	($848,720)	$20,040,540	$25,251,081
24	63	($874,182)	$20,441,506	$25,347,468
25	64	($900,407)	$20,840,563	$25,425,487

Year	Age	Premium Deposit/Withdrawl	Investment Account Value	Insurance Proceeds
26	65	($927,419)	$21,236,886	$25,484,263
27	66	($955,242)	$21,628,523	$25,737,942
28	67	($983,899)	$22,014,202	$25,976,758
29	68	($1,013,416)	$22,392,538	$26,199,269
30	69	($1,043,819)	$22,762,004	$26,403,924
31	70	($1,075,133)	$23,120,585	$26,611,372
32	71	($1,107,387)	$23,467,660	$26,685,443
33	72	($1,140,609)	$23,802,127	$26,692,594
34	73	($1,174,827)	$24,123,095	$26,629,377
35	74	($1,210,072)	$24,430,010	$26,492,611
36	75	($1,246,374)	$24,722,763	$26,279,445
37	76	($1,283,765)	$24,990,507	$26,632,651
38	77	($1,322,278)	$25,229,690	$26,959,311
39	78	($1,361,946)	$25,436,378	$27,255,424
40	79	($1,402,805)	$25,606,163	$27,516,495
41	80	($1,444,889)	$25,734,051	$27,737,417
42	81	($1,488,236)	$25,814,592	$27,912,615
43	82	($1,532,883)	$25,841,812	$28,035,960
44	83	($1,578,869)	$25,808,979	$28,100,540
45	84	($1,626,235)	$25,708,539	$28,098,579
46	85	($1,675,022)	$25,532,041	$28,021,368
47	86	($1,725,273)	$25,268,590	$27,857,638
48	87	($1,777,031)	$24,907,110	$27,595,932
49	88	($1,830,342)	$24,435,358	$27,223,577
50	89	($1,885,252)	$23,840,419	$26,727,198

Year	Age	Premium Deposit/Withdrawl	Investment Account Value	Insurance Proceeds
51	90	($1,941,810)	$23,106,574	$26,090,484
52	91	($2,000,064)	$22,271,821	$24,737,190
53	92	($2,060,066)	$21,343,252	$23,251,699
54	93	($2,121,868)	$20,332,539	$21,645,261
55	94	($2,185,524)	$19,256,702	$19,933,895
56	95	-	$19,380,399	$19,380,399
57	96	-	$19,504,549	$19,504,549
58	97	-	$19,629,146	$19,629,146
59	98	-	$19,754,183	$19,754,183
60	99	-	$19,879,653	$19,879,653

Combining the CRT distributions and policy withdrawals, this latter scenario would generate increasing cash flow beginning at inception, starting with $385,130.00 in year 1 and growing to $2.185 Million in year 55 when OGB is 94, for cumulative tax-free policy distributions of nearly $58.5 Million – plus the $10.1 Million after-tax distributions from the CRT in years 1 – 20 – for cumulative tax-free and after-tax cash flow of $68.6 Million. In addition, it would create an additional nearly $20 Million of income- and estate-tax-free wealth for OGB's family.

Recall that in all scenarios above, OGB contributed $10 Million of bitcoin that would otherwise be subject to an assumed $3 Million combined capital gain tax. By way of contrast, what if instead of funding a CRT or combining a CRT with PPLI, OGB had simply sold the bitcoin, paid the tax, and invested the $7 Million net after tax? If OGB takes a first-year net after-tax gain (again assuming a combined capital gain rate of 30%), OGB's first year cash flow would be $343,000, less than in the above scenarios. If we inflation-adjust this amount by 3%, OGB would run out of money in year 27, at age 66, after approx. $13.85M of cumulative after-tax cash flow, again assuming a 7% growth rate. And in this case, OGB will leave no additional wealth to OGB's family or a remainder to charity. Here are the numbers for this no-tax-planning scenario:

Year	Age	Initial Principal	Growth	Pre-Tax Balance	After-Tax Balance	Distribution	YE Balance
1	40	$7,000,000	$490,000	$7,490,000	$7,343,000	$343,000	$7,000,000
2	41	$7,000,000	$490,000	$7,490,000	$7,343,000	$353,290	$6,989,710
3	42	$6,989,710	$489,280	$7,478,990	$7,332,206	$363,889	$6,968,317
4	43	$6,968,317	$487,782	$7,456,099	$7,309,765	$374,805	$6,934,959
5	44	$6,934,959	$485,447	$7,420,406	$7,274,772	$386,050	$6,888,723
6	45	$6,888,723	$482,211	$7,370,933	$7,226,270	$397,631	$6,828,639
7	46	$6,828,639	$478,005	$7,306,644	$7,163,242	$409,560	$6,753,683
8	47	$6,753,683	$472,758	$7,226,440	$7,084,613	$421,847	$6,662,766
9	48	$6,662,766	$466,394	$7,129,160	$6,989,242	$434,502	$6,554,740
10	49	$6,554,740	$458,832	$7,013,571	$6,875,922	$447,537	$6,428,385
11	50	$6,428,385	$449,987	$6,878,372	$6,743,376	$460,963	$6,282,412
12	51	$6,282,412	$439,769	$6,722,181	$6,590,250	$474,792	$6,115,458
13	52	$6,115,458	$428,082	$6,543,540	$6,415,116	$489,036	$5,926,080
14	53	$5,926,080	$414,826	$6,340,905	$6,216,458	$503,707	$5,712,751
15	54	$5,712,751	$399,893	$6,112,643	$5,992,675	$518,818	$5,473,857
16	55	$5,473,857	$383,170	$5,857,027	$5,742,076	$534,383	$5,207,693
17	56	$5,207,693	$364,539	$5,572,232	$5,462,870	$550,414	$4,912,456
18	57	$4,912,456	$343,872	$5,256,328	$5,153,166	$566,927	$4,586,239
19	58	$4,586,239	$321,037	$4,907,276	$4,810,965	$583,935	$4,227,031
20	59	$4,227,031	$295,892	$4,522,923	$4,434,155	$601,453	$3,832,703
21	60	$3,832,703	$268,289	$4,100,992	$4,020,505	$619,496	$3,401,009
22	61	$3,401,009	$238,071	$3,639,079	$3,567,658	$638,081	$2,929,577
23	62	$2,929,577	$205,070	$3,134,648	$3,073,127	$657,223	$2,415,903
24	63	$2,415,903	$169,113	$2,585,016	$2,534,282	$676,940	$1,857,342

Year	Age	Initial Principal	Growth	Pre-Tax Balance	After-Tax Balance	Distribution	YE Balance
25	64	$1,857,342	$130,014	$1,987,356	$1,948,352	$697,248	$1,251,104
26	65	$1,251,104	$87,577	$1,338,681	$1,312,408	$718,166	$594,242
27	66	$594,242	$41,597	$635,839	$623,360	$623,360	$0
28	67	$0	$0	$0	$0	$0	$0
29	68	$0	$0	$0	$0	$0	$0
30	69	$0	$0	$0	$0	$0	$0
31	70	$0	$0	$0	$0	$0	$0

In short, as compared to no tax planning, the CRT-PPLI combination can produce up to $55 Million more of tax-free and after-tax cash flow, plus add up to a $20 Million tax-free death benefit to the family and $17.2 Million to charity.

Strategy Comparison

Assumes an OGB initiating each strategy at age 40 starting with $10,000,000 in bitcoin wealth.

Strategy	First Year's After-Tax Dist. Amount	Final Year's After-Tax Dist. Amount	Number of Annual Dist.	Total Cash Flow	Cumulative After-Tax & Tax-Free Cash Flow	Additional Wealth to Family	Remainder to Charity
No Planning	$343,000	$623,359	27	$16,780,000	$13,850,000	0	0
CRT	$770,260	$1,291,707	20	$28,850,000	$20,200,000	0	$17,200,000
CRT+ PPLI*	$385,130	$1,365,953	55	$54,700,000	$46,000,000	$5,000,000	$17,200,000
CRT+ PPLI**	$385,130	$2,185,524	55	$78,700,000	$68,600,000	$20,000,000	$17,200,000

*OGB contributes one half of the first ten years' net (after-tax) CRT distributions as premium payments
**OGB contributes one half of all 20 years' net (after-tax) CRT distributions as premium payments

DONOR ADVISED FUNDS

A common tool for philanthropy is the use of a Donor Advised Fund or DAF. DAFs are funds established by an irrevocable gift from the donor to a “sponsoring organization,” which is a public charity. Thus, the donor receives an upfront charitable deduction for the fair market value of the assets contributed, which can include cash, securities, and with some sponsoring organizations, bitcoin. Thereafter, the donor requests that the fund make grants to IRS-approved charities, although the sponsoring organization is not obliged to honor such requests.

In practice, however, sponsoring organizations typically honor the donor’s grant requests if the recommended charity is IRS approved.

While only a handful of DAF sponsoring organizations will accept bitcoin, even fewer will permit the fund to continue to hold bitcoin. As mentioned above, most sponsoring organizations require the immediate liquidation of bitcoin upon contribution to the fund. Thus, it is imperative that the bitcoiner work with a sponsoring organization that will hold the bitcoin via an advisor-managed fund with a mandate tailored for bitcoin until a sale is necessary to satisfy grants, which may be many years in the future. In this way, the fund can strategically sell only when it makes sense to do so, and not within an arbitrary timeframe set by the sponsoring organization. Identifying “strategic” times to sell bitcoin is the goal of Bespoke’s BTC Treasury Management strategy.

BESPOKE'S APPROACH TO BTC TREASURY MANAGEMENT

Bitcoin held in a CRT or a DAF where the sponsoring organization permits the fund to sell the bitcoin with discretion offers the best opportunity to maximize the long-term value of the fund—and of the philanthropic giving that it enables.

Bitcoin is a real asset with a finite supply and should continue to appreciate over time against currencies for which the supply is not finite and subject to political decision-making. However, bitcoin prices make wide swings around that long-term appreciation path, with these swings often taking place over months or even years.

Because the price of bitcoin is highly volatile (25%+ annual standard deviation) relative to other financial assets like equities, Bespoke has developed a strategy to make that price volatility work in the fund’s favor. By using a rules-based approach to identify periods when the bitcoin price is "overbought" (i.e., swinging too high) or "oversold" (i.e., swinging too low) on a monthly timeframe, Bespoke’s strategy aims to concentrate client liquidations near the upper half of the long-term price band – and avoid liquidations near the lower half. When pursued successfully with such a volatile asset, this strategy adds significantly to the long-term average value of the underlying CRT or DAF. The fund can meet its annual objectives for charitable giving while liquidating fewer bitcoins – and while holding onto a larger bitcoin stack to maximize exposure to the future appreciation of the asset.

In addition, if the donor seeks to diversify the bitcoin used for initial funding into active strategies focused on impact aligned with their specific values, or to operate an endowment-style investment portfolio within the DAF, a tailored liquidation and allocation strategy can be developed and implemented by Bespoke that harnesses the same rules-based liquidation strategy.

For example, suppose OGB also contributes $25M of bitcoin to a DAF at OGB's local community foundation. Like most DAFs, the local community foundation DAF requires the immediate sale of the bitcoin. If the bitcoin price retraces 5% between the time of the gift and sale, that fund will be worth 5% less upon sale, or $23.75 Million. Conversely, if the sponsoring organization permits the fund to sell bitcoin as desired, OGB could wait until the price rebounds and then sell only the amount necessary to satisfy impending grants. In this case, the balance of the bitcoin in the fund can continue to appreciate as the price appreciates over time. In other words, OGB can create an endowment that will likely provide significantly increased funds for charity over time, similar to the growth discussed in the context of CRTs above.

CONCLUSION

Those with significant bitcoin can use strategic philanthropy to accomplish many objectives such as providing cash flow via tax efficient diversification through a Charitable Remainder Trust, including into tax-free investments such as PPLI; and creating an endowment through a Donor Advised Fund. While we've advised and assisted clients in funding other types of philanthropy with bitcoin (i.e., private foundations, both operating and non-operating, charitable lead trusts, etc.), CRTs and DAFs are the most common vehicles we use for bitcoin and philanthropy, and these strategies can be particularly powerful if the structure can continue to hold bitcoin over the long term.

For more information, or to speak with a member of the Bespoke Advisory team, please visit us at bespokeadvisory.io.

IMPORTANT INFORMATION:

Disclaimer:
Bespoke Advisory is registered as a registered investment advisor (RIA) with the US Securities and Exchange Commission (SEC). Our registration number is 801-127194.

RIAs have an obligation to comply with the applicable provisions of the Investment Advisers Act of 1940 and the rules that have been adopted by the SEC. Additional information is available at: adviserinfo.sec.gov/firm/summary/323909.

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