



Customer Advisory: Beware “IRS Approved” Virtual Currency IRAs

As income tax filing season approaches, the U.S. Commodity Futures Trading Commission (CFTC) is warning investors to be cautious of sales pitches touting “IRS approved” or “IRA approved” virtual currency retirement accounts.

Virtual currency prices have experienced wild price swings recently. This volatility is not reduced or limited just because the virtual currencies are held in an individual retirement account, or IRA.

Tax payers tend to focus on retirement savings more at tax time in order to increase deductions or maximize savings. As a result, some businesses may attempt to lure customers into buying highly volatile cryptocurrencies using false claims or by painting virtual currencies as less risky because they can be used for retirement saving.

The IRS does not approve or review investments for IRAs. Advertisements or solicitations that use this kind of deceptive language should be viewed with caution. Federal agencies, including the CFTC and IRS, **do not**:

- Endorse any investment.
- Advise people on how to invest their money.
- Issue statements that an investment in an IRA is protected because a trustee or custodian has been approved by the IRS, or is regulated by federal or state agencies.

In most cases, these advertisements are selling self-directed IRAs.

More Versatility but More Risk

IRAs are retirement accounts that provide investors with certain tax incentives for retirement savings. Earnings grow tax-deferred, which means you won't pay capital gains taxes if you sell, but gains will be taxed at your normal income tax rate when funds are withdrawn in retirement. There are also penalties for early withdrawal. Some common examples include traditional or tax-deferred IRAs, Roth IRAs, Simplified Employee Pensions (SEPs), or Savings Incentive Match Plan for Employees (SIMPLE) IRAs. All IRAs are held for investors by custodians or trustees, most of which are banks or broker-dealers that limit investment options to firm-approved stocks, bonds, mutual funds, or certificates of deposit.

Example Fraudulent Sales Pitch:

This investment has been approved for your IRA. You can use your IRA for this investment by filling out the forms in the attached information package, and our agent will take care of the rest. This has been reviewed by the IRS. This investment is so safe you can use it for your IRA. Only certain investments can be approved for your IRA.

Source: An Important Message for Taxpayers with IRAs. IRS.gov



Self-directed IRAs take a more hands-off approach. They are held by trustees or custodians that permit investments in a broad array of assets, from virtual currencies, gold and other precious metals to real estate, promissory notes, or private placement securities. Custodians and trustees of self-directed IRAs may have limited duties to investors and generally will not evaluate the quality or legitimacy of an investment or its promoters.

While self-directed IRAs may offer investors a greater diversity of opportunities, alternative investments come with their own unique risks that retirement savers need to research and carefully consider.

Risks Associated with Virtual Currencies Include:

- Virtual currencies are relatively unproven and may not perform as expected.
- Cash markets for virtual currencies are largely unregulated.
- Cash market platforms may lack critical system safeguards or customer protections.
- Some platforms may sell from their own account putting customers at a disadvantage.
- Digital wallets operated by custodians could be hacked.
- If digital assets are stolen or lost, there may be no way to retrieve them.
- Substantial volatility and price swings.
- Market manipulation.

Protect Yourself

Ponzi schemers and other fraudulent promoters have exploited self-directed IRAs because they can hold unregistered investments, and they encourage investors to hold the investments for long periods of time. Remember:

- Avoid investments touting themselves as IRS or IRA approved.
- Consult your investment advisor, financial planner, accountant, or attorney before starting a self-directed IRA, and be sure you understand the rules and penalties.
- Never transfer or rollover your IRA or 401(k) directly to a virtual currency or investment promoter.
- Do not expect extra safety or less volatility from investments in a retirement plan.
- Thoroughly investigate the virtual currency plan promoter. Check to see if the person or company is registered using the tools on [SmartCheck.gov](https://www.cftc.gov/SmartCheck). Also, verify the custodian or trustee is registered with state or federal regulators.
- Only speculate with money you can afford to lose.
- There is no such thing as a guaranteed investment or trading strategy. If someone tells you there is no risk of losing money do not invest.

If you believe you may have been the victim of fraud, or to report suspicious activity, contact us at 866.366.2382 or visit [CFTC.gov/TipOrComplaint](https://www.cftc.gov/TipOrComplaint).

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