CRYPTOCURRENCY AND DIVORCE:
CALL A FORENSIC ACCOUNTANT

Most investments can be difficult to hide because of the paper trail they leave behind.

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Even in the most amicable of situations, reaching any financial agreement in a divorce settlement can be a major challenge.

Most divorce cases start off with the basic disclosure of financial assets and liabilities, including stocks, pension plans, real estate, tax deficiencies, credit card accounts, and more, whether they are in solely or jointly owned. Through the court process, a judge will instruct and require both parties to provide full and transparent disclosure within a specified time frame.

However, inconspicuous assets such as cryptocurrency require a sharper eye along with some investigative work – this is where a forensic accountant can prove to be a tremendous resource.

So, what is cryptocurrency, and why is it relevant?

Cryptocurrency continues to highlight news headlines and trigger conversations between a vast range of interested parties, from seasoned professionals to novice investors. So, what is this cryptic currency? You have likely heard one or more of the terms: Bitcoin, Litecoin, Dogecoin, Ripple, and Ethereum, which are several well-known types of cryptocurrencies that are already in use.

Cryptocurrency is a virtual currency that is produced and moved through a digital ledger called "blockchain." With blockchain technology, transactions are safely recorded and moved with encryption. The possibility of money being securely transferred this way eliminates the need for a middleman, such as a bank, and has the added benefits of being more time and cost efficient. However, with this paperless transaction, it is much harder to track down and disclose as an asset on the balance sheet.

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How can it be hidden?

In every divorce case, any and all assets must be declared - this includes cryptocurrency. However, this type of virtual monetary asset can be difficult to track and locate if it is not disclosed up front. Since it does not require third party involvement, such as a bank, it is difficult to comply with regulations on full disclosure of finances. Complicating the matter even further, blockchain ledgers do not typically show the source or the reason that transactions are carried out, including buying and selling between coin types.

One way to attempt to uncover hidden virtual currencies is to search for payments or initial investments on bank or credit card statements, which would prove the buying or selling of a cryptocurrency wallet. This would be a perfect time to engage a forensic accountant to comb through evidence of cryptocurrency in other places such as tax returns, net worth statements, and the public blockchain. If material proof is found, and if it has not been disclosed beforehand, hefty penalties can be imposed on the concealing party.

Crypto valuation in a fluctuating market

Once virtual currency is disclosed or uncovered, the next step includes a valuation of the asset. Unfortunately, cryptocurrency is not an easy asset to appraise because the value is constantly changing based on the market's current supply and demand. With a smaller pool of users, when compared to more traditional forms of currency, the cryptocurrency market is much more sensitive to changes in supply or demand.

The value is also affected by media hype, internal competition, security breaches, and social acceptance of trade between companies and suppliers in exchange of goods, services, or other assets. This can lead to rapid and extreme market price fluctuations on a daily basis. Adding to the confusion is the inconsistent legality of cryptocurrency globally and unclear international exchange rates.

Navigating the ins and outs of such a volatile system while already in the midst of a divorce can be a daunting task.

Thus, it is wise to seek advice from an experienced professional advisor or CPA to help determine the true value of the currency and best course of action for dividing the asset over the course of the divorce proceedings. One option to simplify the valuation process is to establish an agreement in which both parties will receive whatever the value will be for the cryptocurrency on the specified date they can access it, whether it changes or not from the current value. By doing this, the parties involved can receive a "true value" and no further paperwork needs to be drawn up to adapt to the fluctuating value.

> "31% of U.S. adults admit to being deceptive with a spouse/partner about money."

In Summary

With an ever-evolving financial world relying more heavily on technology, it is certain that forensic accounting will play a vital role in identifying the movements of finances in alternative investments such as cryptocurrency. As it continues to grow in popularity, cryptocurrency value has become a complex issue which will need to be addressed in divorce settlements, and it will require a specialized professional like a forensic accountant to seek out undisclosed hidden assets that leave no paper trail to follow. Do you have an expert on your team? Don't let the cryptic nature of crypto keep you from receiving your fair share of financial entitlements.

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