Bitcoin ETFs vs. Direct BTC Ownership: Which Is Better?

Description

Bitcoin (CRYPTO:BTC) is the world's most popular cryptocurrency for a reason. The first cryptocurrency ever created, it enjoys a massive "first-mover advantage" that has led to widespread adoption by countries, businesses, and financial institutions. If you're looking to invest in crypto, then BTC is probably near the top of your list of coins to buy.

But even if you're 100% committed to buying Bitcoin, you need to consider the form that you will buy it in. There are countless ways to get exposure to Bitcoin — direct ownership, exchange traded funds (ETFs), and crypto mining stocks, just to name a few. Each of these different forms has its pros and cons. In this article, I will explore the pros and cons of owning Bitcoin directly, as contrasted with one of the more popular alternatives to Bitcoin — BTC ETFs.

Tax considerations

Taxes are a major consideration for anyone investing in cryptocurrency. Bitcoin and other cryptos are subject to capital gains tax, which is a tax on a portion of your gain upon selling an asset. The capital gains tax only applies to 50% of your gain, so you pay a little less than you would on employment income. Still, it's not nothing. If you're in the top tax bracket in Ontario, you can pay up to 26% in capital gains taxes.

In terms of taxability, crypto ETFs beat direct ownership in crypto. With a Bitcoin fund like **Purpose Bitcoin ETF** (TSX:BTCC.B), you can simply buy and trade BTC on the stock market. This means that you can easily hold your position in a TFSA. A TFSA is a special tax-sheltered account that exempts you from dividend and capital gains taxes. It's extremely easy to hold BTCC.B in a TFSA. You can buy it directly through your brokerage account. You do have to pay BTCC.B's managers a fairly steep 1% annual management fee. But in exchange for that, you get potentially much more than 1% taken off your tax bill.

Using Bitcoin as a currency

As we've seen, Bitcoin ETFs beat direct ownership when it comes to taxes. That's a big advantage. But there is one area where Bitcoin indisputably has the advantage: *use as a currency.*

When you hold Bitcoin directly, you can spend it at many stores. In El Salvador, Bitcoin is legal tender! The number of businesses you can spend Bitcoin at is growing by the day. You absolutely cannot spend Bitcoin that is held through an ETF. So, direct ownership wins on this criterion.

Foolish takeaway

Owning Bitcoin and holding Bitcoin ETFs are two viable ways to get exposure to BTC. Each has its pros and cons. With Bitcoin ETFs, you can tax shelter your holdings easily, and you don't have to worry about things like passwords. With direct Bitcoin holdings, you can spend your Bitcoin just like cash, and you don't need to pay a management fee. Each method of holding Bitcoin has its strengths and weaknesses. Ultimately, which is right for you depends on your personal circumstances and goals.

CATEGORY

1. Cryptocurrency
2. Investing

TICKERS GLOBAL

1. TSX:BTCC.B (Purpose Bitcoin ETF)

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