

TaxWatch

If you found Coinbase's Super Bowl ad confusing, check out the exchange's entry into this tax season

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The IRS has warned of a bumpy tax season with potential refund-processing delays



While 42% of people say they'll use their 2021 refund for savings, 13% say they will invest it in the stock market.

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COIN ▲ +14.34% BTCUSD ▲ +0.51% ETHUSD ▲ +0.89% NRDS ▲ +4.89% INTU ▲ +4.11%



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8 minutes

Coinbase's Super Bowl [roving QR code Super Bowl commercial](#) may be as confusing to some people as its surprise entry into tax season.

Tax refunds typically arrive as either direct deposits to checking accounts or paper checks, and now they can get beamed into cryptocurrency portfolios, thanks to a new partnership [between TurboTax and Coinbase](#) **COIN, +14.34%**.

Taxpayers who use TurboTax can ask to have their refunds deposited directly into a Coinbase account, where the money can be converted to more than 100 types of cryptocurrencies without trading fees, or it can sit in U.S. dollars, ready for future trades.

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But just because people can receive their refund this way, should they?

This decision comes at a time when investment experts urge caution as volatile investments such as bitcoin **BTCUSD, +0.51%** and ethereum **ETHUSD, +0.89%** may or may not rebound from recent declines.

There are plenty of ways to use a tax refund in the market, financial advisers say. For example, a person could apply their refund directly to the purchase of U.S. savings bonds, known as I-Bonds, or they could take the direct deposit in cash and buy any array of stocks, bonds and investment assets.

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The image shows a video player interface. At the top, it says 'NOW PLAYING:' followed by a close button 'X'. Below that is the title 'MarketBrief - Zeroing in on Opportunities'. The main content area is a dark green rectangle with the Fiverr logo in white and a yellow button that says 'Go get SEO'. A small yellow box with 'AD' is in the top left corner of the video area. At the bottom of the video area, there is a link that says 'Visit our Video Center'.

Financial advisers say proceed with caution.

Cryptocurrency holdings can be a “decent diversifier” and there are chances for future profits, said Todd Smith, owner of Level 5 Financial, a Colorado Spring, Colo. investment advisory firm.

But it’s becoming too easy for people to put money into investments they don’t fully understand, he said.

‘I’m not sure there’s a spot for cryptocurrency in a lot of people’s portfolios right now.’

– Marisa Bradbury, a wealth advisor at Sigma Investment Counselors

“With the extreme levels of volatility, especially with what we’ve seen recently, your refund could immediately be halved, so I don’t know if it’s a good idea,” Smith said.

Retire Early. Build Wealth. Feel Secure.

Whatever your dreams of the future might be, our FREE retirement planner can help. Build your financial plan: Set your goals, take control, make better decisions and stay on track.



TRY OUR PLANNER

The image shows a promotional banner for a retirement planner. It has a blue header bar. Below the header, the text reads 'Retire Early. Build Wealth. Feel Secure.' followed by a paragraph: 'Whatever your dreams of the future might be, our FREE retirement planner can help. Build your financial plan: Set your goals, take control, make better decisions and stay on track.' To the right of the text is a portrait of a middle-aged man with short hair, wearing a blue shirt. At the bottom left, there is a green button with the text 'TRY OUR PLANNER'.

The Coinbase-TurboTax offer provides an easy way to diversify into crypto, said Marisa Bradbury, a wealth advisor at Sigma Investment Counselors in the Greater Orlando area. Perhaps, too easy.

“I’m not sure there’s a spot for cryptocurrency in a lot of people’s portfolios right now,” she said.

In fact, not many households are planning to pour their tax refund into the market. While 42% of people say they’ll use their 2021 refund for savings, only 13% say they will invest it in the stock market, according to a [NerdWallet poll](#) of more than 2,000 people.

In similar NerdWallet **NRDS**, **+4.89%** polls over the [last two years](#), just 10% of people said they’d put the money in the market.

More than half of the people surveyed this year are expecting a refund and they are budgeting for an average \$2,221, NerdWallet said. The average refund last year was approximately \$2,800 [according to IRS statistics](#).

Whether it’s cryptocurrency, I-Bonds or cash for the portfolio, here are the risks and rewards investors should consider now as they determine what’s going to be next for their tax refund.

A tax refund straight to cryptocurrency

When people file their 2021 income taxes through TurboTax **INTU**, **+4.11%**, they’ll have the chance to send their tax refund money directly to their Coinbase **COIN**, **+14.34%** account, according to announcements last week from the tax preparation giant and the cryptocurrency exchange platform.

Some or all of the tax refund can go to the Coinbase account. TurboTax users can divvy their refund in up to three different bank accounts, a spokeswoman noted.

The IRS has warned of a [bumpy tax season](#) with potential refund-processing delays, but TurboTax said there will not be extra administrative burdens in getting refunds to Coinbase accounts. “This will be processed just like a direct deposit into any other bank account,” the spokeswoman said.

‘We’re also committed to making tax season as easy as possible.’

— Bipul Sinha, Coinbase’s senior product manager

“Coinbase is committed to giving everyone instant and easy access to the cryptoeconomy,” Bipul Sinha, Coinbase’s senior product manager, said [a blog post](#) last week, adding, “We’re also committed to making tax season as easy as possible.”

Coinbase did not immediately respond to a MarketWatch request for comment.

The ease of steering tax refund money towards cryptocurrency is also a downside, advisers say.

Sure, automated investing stops a person from spending money meant for other purposes, said Mark Struthers of Sona Wealth in Edina, Minn. But “crypto is a risky asset class. Any crypto investing should be well thought out and carefully planned.”

“Crypto is very speculative so someone who needs that money or cannot afford to lose it should not be putting their tax refund there,” said Lauren Gadkowski Lindsay of Beacon Financial Planning in Hyannis, Mass.

People should also be aware of the potentially tricky tax headaches if they buy and sell crypto, but keep all their profits in their portfolio.

A tax refund straight to I-Bonds

Some regard crypto as an inflation hedge, but U.S. Savings Bonds, known as I-Bonds, don't get enough attention, some experts say — especially at a time when inflation is at its hottest point in decades.

These U.S. government bonds have a fixed rate of interest, plus an inflation index that gets recalculated every six months. I-Bonds purchased between now and April have a 7.12% rate.

Backed by the full faith and credit of the federal government, these bonds are seen as a safe destination to park cash and take advantage of returns that could be higher than other low-risk investment vehicles like a high-yield savings account or a CD.

For roughly a decade, the IRS has allowed taxpayers to buy these bonds using their tax refund. An individual can buy up to \$5,000 in I-Bonds using their tax refund money.

'I-bonds should be viewed more as a mid to long term investment vehicle.'

— Jonathan Kiehl of Evenkiehl, an investment advisory firm

A tax refund being converted directly to cryptocurrency is “an extremely bad idea,” said William Suplee of Structured Asset Management in Berwyn, Pa. But refund money for I-Bonds is “a classic no-brainer” and “an absolutely great layup.”

“Try to find any other fixed income investment that pays this type of rate,” Suplee said, pointing to the current 7.12% rate. The taxes on the interest come when the owner redeems the bonds and the interest is exempted from state and local taxes.

But these investments aren't the place for people who need quick access to their cash. It takes one year before these bonds can be redeemed for principal and accrued earnings. People who cash out before five years lose the previous three months of interest.

“I-bonds should be viewed more as a mid to long term investment vehicle, which may not align with an investor that has a shorter term time horizon,” said Jonathan Kiehl of Evenkiehl, an investment advisory firm.

A tax refund straight to the checking account

A checking account is the preferred route for getting cash and figuring out the next investment steps, several financial advisers told MarketWatch. It's also the most common route for taxpayers.

Direct deposit refunds accounted for over 90% of all refunds last tax season, IRS reports show. (For fastest receipt of refunds, the IRS advises households file electronically and arrange direct deposit.)

The upsides are the flexibility and choice to spend the money on whichever investments best fit a person's risk appetite and goals.

But there may be a downside too: people with cash in hand might suddenly get in the way of their own investing goals by spending the money elsewhere.

There are economic and emotional sides to decisions on how to spend any sum of money, including a tax refund, Smith noted. The best investment moves keep emotion in

check, but Smith asks, 'Can you trust yourself to do that?'

"A con with getting a check is the lack of an automatic investment being made; and therefore, the possibility that the money never actually gets invested," Kiehl said. "Like salary deferrals, the most effective savings method is often the one that happens when we don't feel or see it leave our proverbial wallets."

MW



My friend got us free theater tickets. When I got home, she texted me, 'Can you get our next meal or activity?' Am I obliged to treat her?

'I am not a tit-for-tat person, especially with friends. I often treat friends to a drink.'

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