



Ask the Experts: Financial FAQs (Summer 2017)

In this issue, we examine a diverse set of topics, including bitcoin and blockchain technologies, the benefits and considerations of filing for an income tax extension, and why you might want to consider umbrella liability insurance.

Q: What is Bitcoin? Is it something I should be keeping an eye on?

A: Bitcoin is a digital currency—sometimes called a cryptocurrency—and payment system that was introduced in 2009. A handful of other digital currencies exist, but Bitcoin is the largest in terms of market value and usage. The Bitcoin payment system is peer-to-peer, and transactions take place between users around the globe without an intermediary, so there are no transaction fees. Unlike traditional currencies, Bitcoin is not backed by a government or central bank, but bitcoins can be exchanged for traditional currencies.

Initially, bitcoins were used for the online purchase of goods and services, but real-world merchants have started accepting them as well. Laszlo Hanyecz made history in May 2010 when he bought two large pizzas at a Papa John's in Jacksonville, Florida, with bitcoins. Today, a growing list of companies—online and brick-and-mortar, small and large—accept the currency.

Bitcoin is also the principal currency behind much of the illegal activity on the dark web. Money launderers and purveyors of drugs, weapons, hacking for hire, ransomware, and child pornography seek payment in bitcoin since it is largely untraceable by law enforcement.

In November 2013 and again in May 2017, the price of bitcoins appreciated dramatically. These price spikes have caught the attention of speculative investors, and several financial services firms have made ill-fated attempts to create exchange-traded funds linked to the price of the currency. At this point, the lack of regulatory backing, poor liquidity, fraud potential, and price volatility make it difficult to take seriously as an investment.

Bitcoin may never become a widely used currency (or investment), but blockchain, the technology underlying Bitcoin, could prove to be an important byproduct. Essentially, blockchain is a public ledger used to record financial transactions. It accepts entries from different parties, and the ledger can only be changed when there is agreement among the parties. This is what makes transactions secure and eliminates the need for a central authority.

Blockchain is currently used primarily to support Bitcoin, but it has uses in a wide variety of applications. For example, blockchain could be used as a global payment system for traditional currencies (as a replacement for the SWIFT network) and as a way to record financial transactions and assets such as stocks, bonds, insurance policies, land titles, frequent flyer miles, and contracts such as car and property rental agreements. It is also being explored as a way to store data for fields as varied as identity management, electronic voting, and patient healthcare records.

Use of blockchain is picking up all over the world. Sweden, Ghana, and Honduras are already using it to record land titles. And a 2016 survey conducted by the IBM Institute for Business Value found that 15 percent of banks intend to implement full-scale blockchain-based services in 2017, and that about 65 percent of banks surveyed expect to have blockchain in production within three years. Amazon and Microsoft both offer technology tool kits that can be used by both financial institutions and startups alike to build new offerings around blockchain.

Bottom line: While the daily price swings of bitcoin are exciting to monitor, blockchain is the bigger development to watch. Whether or not bitcoin ever becomes a viable alternative to the dollar, blockchain technology has the potential to radically change the way financial transactions are facilitated and personal data is securely stored in the future.

Q: Every year I receive some of my tax information late, so I'm always scrambling to file my federal income taxes. What is the downside of filing for an extension?

A: Federal and state income tax returns are usually due on April 15 (or the first business day thereafter). However, if you need more time, the Internal Revenue Service grants you an automatic six-month extension, so long as you complete Form 4868 electronically or on paper.

Some people are uncomfortable with the thought of filing an extension, but they shouldn't be. More than 13 million taxpayers did it in 2015 (and that number has been rising in recent years). And while opinions vary, there is no evidence that extending increases your audit risk. In fact, some tax preparers argue that taking the time to prepare an accurate return actually reduces audit risk.

Among the reasons why you might want to file an extension include:

- **Late or incomplete tax documentation.** You can't file an accurate return if you don't have all the information you need—or if the information you have is inaccurate. Schedule K-1s often do not arrive in time for Tax Day, and it's not unusual for 1099s to require correction.
- **Life events.** Death of a family member, illness, moving, marriage, divorce, and natural disasters create personal and family demands that can distract from timely tax preparation.
- **Complications.** Maybe you just got married and it's your first time filing jointly. Perhaps you bought or sold a house or a business. Or maybe you just have a busy and complicated life, and circumstances do not allow you to gather all your tax documents on a timely basis.

But remember: An extension allows you to delay filing, not paying. You may still have to write a check to the U.S. Treasury in April based upon a good estimate of what you owe. If the estimated payment you send is low, you will pay interest (and perhaps a late-payment penalty) on the difference.

For state income taxes, check your state tax laws or talk to your tax preparer. Some states accept IRS extensions, while others require you to file a separate state extension form.

The IRS does not need an explanation when you apply for an extension, so there is no reason to prepare your tax return in a rush if other issues keep you from focusing on it. More time and less stress means you will be able to thoroughly review your return and ensure that you're taking advantage of all the tax benefits available to you. As always, please consult your tax preparer for more information on filing extensions and to help you determine if an extension makes sense for you.

Q: What is umbrella liability insurance? What does it cover?

A: Umbrella liability insurance is designed to protect your assets from an unforeseen event, such as an accident in which you are held responsible for damages or bodily injuries. If another party files a lawsuit against you, umbrella coverage will pay the damages you are legally responsible for up to the policy limit. Typically, an umbrella liability policy covers a much higher limit and goes above and beyond what is covered by your homeowner's, renter's, and auto insurance policies.

Umbrella liability insurance is extremely broad coverage. Most umbrella liability policies provide protection, up to the coverage limits specified in the policy, for claims, including:

- Bodily injury or property damage caused by you or members of your household, or hazards on your property for which you are found legally liable;
- Personal liability coverage for incidents that occur on or off your property;
- Additional protection above your basic auto policy for auto-related liabilities;
- Protection against non-business-related personal injury claims, such as slander, libel, wrongful eviction, and false arrest; and
- Legal defense costs for a covered loss, including lawyers' fees and associated court costs.

If something is not expressly excluded from coverage, it is covered. Exclusions vary by insurer and policy, but the following are some items usually excluded from coverage:

- Intentional damage caused by you or a member of your family or household;
- Damages arising out of business or professional pursuits;
- Liability that you accept under the terms of a contract or agreement;
- Liability related to the ownership, maintenance, and use of aircraft, nontraditional watercraft (e.g., jet skis and air boats), and most recreational vehicles;
- Damage to property owned, used, or maintained by you;
- Damage covered under a workers' compensation policy; and
- Liability arising as a result of war or insurrection.

Determining how much coverage you need is not an exact science. You should consider factors such as how often you have guests in your home, whether you operate a home-based business, how much you drive, whether you have teenage drivers in your home, and whether your lifestyle gives the impression that you have deep pockets.

Coverage limits vary, but a typical policy provides liability coverage worth \$1 million to \$10 million. Of course, as your coverage limit increases, the premium will also increase. Your insurance agent can help you determine how much coverage you need. Almost any insurer who writes auto and home insurance policies will also sell umbrella liability policies.

Have questions? Need help? Call the CAPTRUST Advice Desk at 800.967.9948 or [schedule an appointment](#) with a retirement counselor today.

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