

Bitcoin & Cryptocurrency Taxation, Regulation & Reporting

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Biography

Tyler is a CPA in public practice with Riser McLaurin and Gibbons LLP based in Charleston, SC. He works with individuals and businesses providing guidance on tax reporting issues as they relate to Federal and State compliance. Tyler has presented to various associations on the tax reporting of cryptocurrencies & digital assets. In addition to tax compliance Tyler also works in the area of litigation support and provides expert testimony on various financial issues.

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“Taxes won’t kill Bitcoin, but tax reporting might” – New York Times

What is the Blockchain?

- ▶ “Bitcoin [Blockchain] is a digital bearer instrument. It is a way to exchange money or assets between parties with no pre existing trust...this is literally like cash...This has never existed.” –Marc Andreessen

The Blockchain

- ▶ Transaction database
- ▶ Distributed open source ledger
- ▶ Allows various uses in addition to currency
- ▶ Contains every transaction ever executed in the currency
- ▶ Multiple alternative uses including contracts & equity trading
- ▶ IBM commented on future use of Blockchain technology



What is Bitcoin the Currency?

- ▶ “Bitcoin is a digital currency whose value is based directly on two things; volume and velocity of payments running through the ledger” – Marc Andreessen

Bitcoin Legal Cases & Big Stories

- ▶ Silk Road—Ross Ulbricht sentenced to life in prison
- ▶ MTGOX—Largest exchange hack
- ▶ Charlie Shrem—Bitcoin's first felon; anti-money laundering
- ▶ Winklevoss twins—SEC rejected bitcoin ETF
- ▶ \$60M hard drive thrown away (7500 coins from 2009)

2014 IRS Guidance

- ▶ “Virtual currency is a digital representation of value that functions as a medium of exchange, a unit of account, and/or a store of value...but it does not have legal tender status in any jurisdiction” – Internal Revenue Service Notice 2014-21

- ▶ IR-2014-36, March. 25, 2014
- ▶ WASHINGTON — The Internal Revenue Service today issued a notice providing answers to frequently asked questions (FAQs) on virtual currency, such as bitcoin. These FAQs provide basic information on the U.S. federal tax implications of transactions in, or transactions that use, virtual currency.
- ▶ In some environments, virtual currency operates like “real” currency -- i.e., the coin and paper money of the United States or of any other country that is designated as legal tender, circulates, and is customarily used and accepted as a medium of exchange in the country of issuance — but it does not have legal tender status in any jurisdiction.
- ▶ The notice provides that virtual currency is treated as property for U.S. federal tax purposes. General tax principles that apply to property transactions apply to transactions using virtual currency. Among other things, this means that:
- ▶ Wages paid to employees using virtual currency are taxable to the employee, must be reported by an employer on a Form W-2, and are subject to federal income tax withholding and payroll taxes.
- ▶ Payments using virtual currency made to independent contractors and other service providers are taxable and self-employment tax rules generally apply. Normally, payers must issue Form 1099.
- ▶ The character of gain or loss from the sale or exchange of virtual currency depends on whether the virtual currency is a capital asset in the hands of the taxpayer.
- ▶ A payment made using virtual currency is subject to information reporting to the same extent as any other payment made in property.

What the IRS Ruling covered

IRS Notice 2014-21:

- ▶ Wages
- ▶ Payments to Contractors
- ▶ Capital gains / losses
- ▶ Taxability of Mining
- ▶ Employment tax on Mining
- ▶ Exchanging
- ▶ FMV
- ▶ Record Keeping



IRS FAQs

- ▶ **Q-1: How is virtual currency treated for federal tax purposes?**
- ▶ A-1: For federal tax purposes, virtual currency is treated as property. General tax principles applicable to property transactions apply to transactions using virtual currency.

- ▶ **Q-2: Is virtual currency treated as currency for purposes of determining whether a transaction results in foreign currency gain or loss under U.S. federal tax laws?**
- ▶ A-2: No. Under currently applicable law, virtual currency is not treated as currency that could generate foreign currency gain or loss for U.S. federal tax purposes.

- ▶ **Q-3: Must a taxpayer who receives virtual currency as payment for goods or services include in computing gross income the fair market value of the virtual currency?**
- ▶ A-3: Yes. A taxpayer who receives virtual currency as payment for goods or services must, in computing gross income, include the fair market value of the virtual currency.

**Additional FAQs can be found at: <https://www.irs.gov/pub/irs-drop/n-14-21.pdf>

Taxpayers may submit comments electronically via e-mail to the following address: Notice.Comments@irs.counsel.treas.gov Taxpayers should include “Notice 2014-21” in the subject line. All comments submitted by the public will be available for public inspection and copying in their entirety.

Bitcoin and Tax Evasion



- ▶ “Get paid in bitcoins, pay no taxes” – Evasion mentality regarding Bitcoin
- ▶ What issues will Bitcoin create for the IRS?
 - ▶ Unreported Capital Gains
 - ▶ Unreported Income
 - ▶ Tax havens

News & Timeline

- ▶ Awareness of cryptocurrencies is way up; 60% Americans heard of BTC, 5% own BTC
- ▶ 2014 IRS Guidance: “virtual currency guidance” treated as property for tax purposes
- ▶ 2016 Treasury Dept Inspector General completed a review recommended updated standards.
- ▶ 2017 IRS summons over Coinbase in a bid for customer data

- ▶ Coinbase & other exchanges now reporting on 1099-B / 1099-K
- ▶ 13K+ user data forwarded to IRS from exchanges
- ▶ AICPA has requested additional FAQs to supplement the 2014 IRS guidance

IRS tracking of Bitcoin

- ▶ Direct reporting from exchanges
- ▶ Large wires require SAR reporting from Xchange or Bank
- ▶ IRS access to FinCEN records
- ▶ Whistleblowing rules
- ▶ Voluntary reporting (Foreign bank accounts)

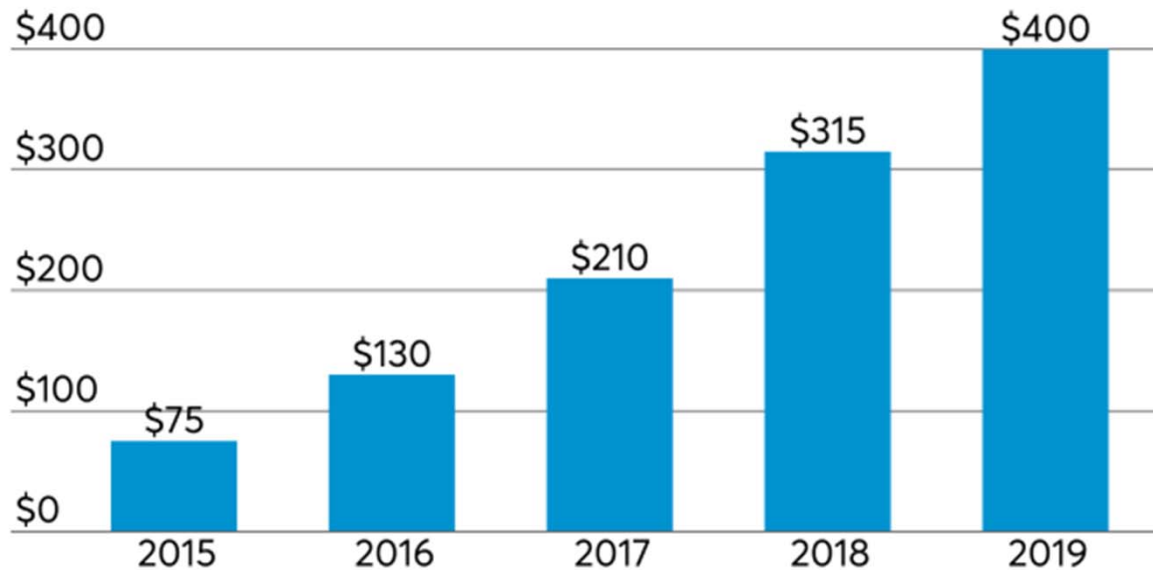
Tax treatment for Bitcoin Miners

- ▶ Income recognized for each BTC mined
- ▶ Basis is FMV the day awarded to “Blockchain”
- ▶ i.e. Mine at \$1000 = Income that year; Sell at later date = Gain diff. of basis and sale price
- ▶ Deduct expenses as Trade or Business (ie. Electricity)
- ▶ SE Tax applicable to income

Blockchain & The Accounting Industry

Blockchain on the rise

Estimated capital market spending on blockchain, in \$mns



Source: Aite Group

How the Big 4 are using Blockchain

- ▶ KPMG – Digital Ledger Services program launched in 2016; member of the Wall Street Blockchain Alliance
- ▶ Deloitte – Entered the space in 2014 with Rubix blockchain platform
- ▶ E&Y – First to accept BTC as a payment method
- ▶ PWC – Also accepting BTC as a payment method
- ▶ Erik Asgeirsson, president and CEO of CPA.com, believes that blockchain is just the next in a long line of transformations within the accounting world.

Who benefits from Crypto?

- ▶ 3rd World – Telephone based asset transfer
- ▶ 68B unbanked

Transactions

- ▶ Currency exchange trading
- ▶ Investing
- ▶ Purchasing goods and services
- ▶ Barter
- ▶ Compensation / Payroll

Types of Taxes

- ▶ Sales tax
- ▶ VAT
- ▶ Income tax
- ▶ Excise tax
- ▶ Payroll tax

Bitcoin for the Business owner

▶ What makes up a merchant fee?

- ▶ Authorization Fee
- ▶ Transaction Fee
- ▶ Monthly Minimums
- ▶ Statement Fees
- ▶ Batch Fee
- ▶ Customer Service Fee
- ▶ Annual Fee
- ▶ Early Termination Fee
- ▶ Chargeback Fee



Bitcoin for the Consumer

- ▶ Every transaction is reportable at FMV
- ▶ Foreign Currency status would make each transaction non-reportable (i.e. current fiat treatment)
- ▶ Could the Bitcoin technology increase tax reporting efficiency for consumers and businesses?

Sources

- ▶ [IRS.gov](https://www.irs.gov)
- ▶ [Wikipedia.com](https://en.wikipedia.com)
- ▶ [Reddit.com](https://www.reddit.com)
- ▶ [TheDailyDot.com](https://www.thedailydot.com)
- ▶ CPA Practice Advisor Publication
- ▶ Pillsbury Winthrop Shaw Pittman LLP
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