

Taxation of Bitcoin, its Progeny and Derivatives: Coin Ex Machina

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Wolters Kluwer

Speaker

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  Stevie leads Wolters Kluwer's Compliance Solutions business's Fintech Task Force. She has spoken and co-authored several articles in 2018 on blockchain and cryptocurrency tax and regulatory issues.

  - Conlon, Vayser & Schwaba, *Taxation of Bitcoin, Its Progeny, and Derivatives: Coin Ex Machina*, 158 Tax Notes 1001 (Feb. 19, 2018)
  - Conlon, Vayser & Schwaba, Bitcoin Forks and Livestock Law? Tax Day 2018 is a Different Animal, Coindesk (Apr. 9, 2018) https://www.coindesk.com/got-free-crypto-fork-heres-tell-irs/
  - Conlon, Vayser & Schwaba, *Bitcoin, and Wash Sales, and Straddles; Oh My!*, 160 Tax Notes 505 (July 23, 2018)
  - Conlon, Vayser & Schwaba, *If a Crypto-Tree Falls in a Digital Forest, Can It Give Rise to Tax Evasion?*, 162 Tax Notes 30 (November 5, 2018)
  - Conlon, *Virtual Currencies: What Banks Need to Know*, 39 ABA Bank Compliance No. 6, 28 (Nov./Dec. 2018)

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Agenda

- Cryptocurrency and blockchain overview
- ICO and token overview
- IRS guidance and concerns
- Tax – exchanges, like-kind exchanges, wash sales, straddles, forks, drops
- Form 1099-MISC, W-2 & 1099-B reporting issues
- Form 1099-B reporting concerns
- Pending federal blockchain legislation

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Cryptocurrency and Blockchain Overview

What is a cryptocurrency?

- Intangible store of value
- Distributed, linked and managed through a blockchain—
  via a distributed ledger
- Each new "block" is identified by a unique cryptographic hash
  - The hash is obtained through solving a complex math problem in a process called "mining"
- Not typically backed by a government or tangible asset
  - Potential exceptions regarding government backing
    - Venezuela; *Petro* (launched Feb. 2018)
  - Potential exception for newly developed "stable" coins (e.g., backed by U.S. dollar or gold)

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Cryptocurrency and Blockchain Overview

Why does cryptocurrency exist?

- Started in 2009; October 31, 2008, a white paper by Satoshi Nakamoto published
- Social reaction to 2008 financial crises, problems with banking system
- The following block of text was embedded in the first ("genesis") block of Bitcoin:

  "The Times 03/Jan/2009 Chancellor on the brink of second bailout for banks."
- There is continuing commentary regarding the social repercussions of the financial crisis on the behavior of millennials and distrust for banks

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Cryptocurrency and Blockchain Overview

Blockchain Overview

- "Blockchain" is the underpinning technology
- "Blocks" of verified data are "chained" together to form a publicly available **distributed ledger**
- Each block contains a record of all transactions involving that block
- The entire chain is discernible (ownership could be obfuscated)

Blockchains rely on:

- Consensus – to verify the chain's integrity
- Cryptography – to provide proof of work
- Mining activity – to provide a means to record new transactions

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