

Welcome to our Webinar:

**Cryptocurrency for
Accountants Part 3**

Tax Implications

Featuring:

Chalene Gallagher – Moderator

David Nickson – Presenter

30th September 2021

Our Moderator



Chalene Gallagher CAW Network USA New York Chapter President

Chalene is CAW Network USA's Chapter President for Greater New York since March 2021. Chalene is a Regulatory Data Senior Associate (Specialist) at the Federal Reserve Bank of New York with experience analyzing complex regulatory reports and providing interpretive guidance on regulatory reporting requirements. She trained in public accounting within the alternative investments group of a Big 4 firm before transitioning to consultancy and then Bank Regulation. Chalene is a Chartered Accountants Ireland member

Our Speaker

David Nickson – Principal at EY



David is a principal in EY's Tax Technology and Transformation (TTT) practice and is the U.S. SAP Tax Alliance and EY East Region TTT leader. He has over 25 years of experience in international tax planning and corporate compliance, and supports clients across the full range of transformation – from tactical intelligent automation through to large-scale business process and ERP programs, where tax and value chain/intercompany strategies must be operationalized and tax functional operations must be appropriately aligned. He is a Chartered Accountant, Chartered Tax Adviser, Enrolled Agent and Six Sigma Black Belt.

Learning Objectives

By the end of today's session, you will be able to answer the following questions:

- What are the big picture commercial and regulatory issues that are influencing tax policy in cryptocurrency?
- How are countries around the globe approaching cryptocurrency taxation?
- How does the U.S. treat cryptocurrency?
- What are the key tax issues that need to be resolved?

Cryptocurrency for Accountants - Tax

Presentation to CAW Network USA

30 September 2021

Contact



David Nickson

Principal - Ernst & Young LLP

Tax Technology and Transformation

The EY logo, consisting of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y'.

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working world



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Accountants
Worldwide

Network
USA

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CRYPTO CURRENCY

“

The Federal Reserve simply does not have authority to supervise or regulate Bitcoin in any way.

Janet Yellen, U.S. Secretary of the Treasury and former chair of the US Federal Reserve
February 2014

<https://www.wsj.com/articles/BL-MBB-17195>

“

Everything you don't understand about money combined with everything you don't understand about computers.

John Oliver, Last Week Tonight
March 11, 2018

<https://finance.yahoo.com/news/john-oliver-hbo-show-digs-140953871.html>

The big picture

Cryptocurrency market trends

1 Total global market capitalization*

September 2019

\$249bn

August 2021

>\$2tn

2 Regulatory environment

Central Banks are wary of cryptocurrencies, but many are actively **exploring** creating their own Central Bank Digital Currency.

3 Tax implications

There is a lack of consensus among global tax authorities on how to treat cryptocurrencies. As a result, the tax implications of purchase, ownership, and sale of cryptocurrencies **vary widely between jurisdictions.**

The corporate and personal income tax implications of cryptocurrency assets **vary significantly** depending on jurisdiction of purchase or sale.

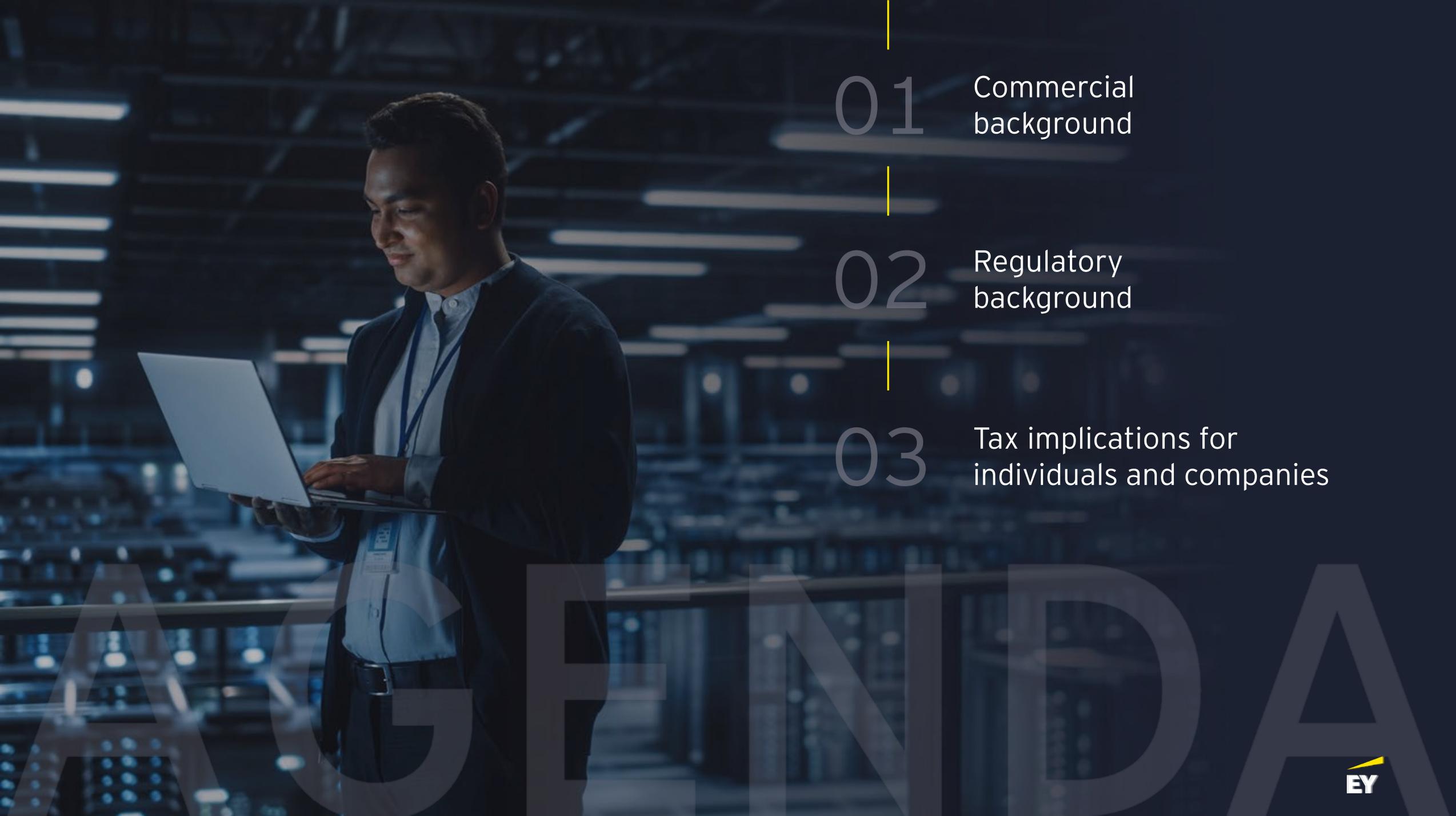
Seek advice for your individual situation to address risks, maintaining adherence to local rules and regulations and potentially reducing associated taxes to the extent permitted by relevant law.

* Source : coinmarketcap.com

Question 1

Today is our 3rd instalment of 3 sessions on Cryptocurrency. Which of the previous sessions have you watched live or recorded?

- a. Both
- b. Just Part 1
- c. Just Part 2
- d. Neither



01 Commercial background

02 Regulatory background

03 Tax implications for individuals and companies

AGENDA

A man and a woman are standing in a server room, looking at a laptop. The man is pointing at the screen. The room is filled with server racks and has a blue glow from the lights.

01

Commercial
background

Cryptocurrencies have gained significant traction and are poised to **continue growing over the medium term.**

Use cases of Cryptocurrencies



Transactional

Highly efficient means of payment. Can transfer money globally in a minimal amount of time compared to traditional mode of wire transfer via bank.



Compensation

Paying salaries in cryptocurrency helps save on fees of transfer and conversion. Also makes it convenient to hire remote workers, as payments can be made instantly, without the need of a banking institution.



Asset

Functions as an asset/commodity in the real- or virtual-world through ownership of exclusive tokens on a blockchain network.

Resolving the taxation issues associated with this explosive growth is a **major global and jurisdictional-level challenge.**

Question 2

The commercial aspects of cryptocurrency I am most personally interested in are:

- a. Transactional - as a means of commercial payment
- b. Compensation - as a form of remuneration
- c. Asset - as an investment class
- d. All of the above
- e. Undecided

A man and a woman are standing in a server room, looking at a laptop. The man is pointing at the screen. The background is filled with server racks and blue lighting. There are yellow vertical bars on the left and right sides of the image.

02

Regulatory background

Why are cryptocurrencies so **popular**?

- 1 They operate **independently of central banks**.
- 2 **The technology behind cryptocurrencies, the blockchain**, is a decentralized processing and recording system and has the potential to be more secure than traditional payment systems.
- 3 They have experienced **phenomenal growth over the past several years** and are becoming more widely used by companies.

Why are governments so **concerned**?

See left



Crypto currency = **Hidden** currency

Market size:

The global cryptocurrency industry is in nascent stage with market cap of US\$2 trillion, and is expected to grow at 30% CAGR to surpass US\$5 trillion by 2026

Cryptocurrency market capitalization and future trends
(as of April 2021)

~\$2.04tn

total market capitalization
(as of April 2021)

~367

exchanges that deal in
cryptocurrency

~6,790

cryptocurrencies currently
exist in the world

~50%

of the entire cryptocurrency market
capitalization is dominated by Bitcoin



According to the study by **Facts and Factors**¹, the global Cryptocurrency market **was ~US\$793 million in 2019**. The market is expected to grow at a **CAGR of 30%** from 2019-2026 and is anticipated to reach around **US\$5.1 trillion by 2026**.

Source : [coinmarketcap.com](https://www.coinmarketcap.com), CNBC

¹ "Current and Upcoming Trends in Cryptocurrency Market Cap to Hit \$5,190.62 Million by 2026, Soars at 30% CAGR: Facts & Factors", Intrade Global Newswire, February 23, 2021

Global regulation of cryptocurrency is in its infancy and in **near constant flux**

“

In statements that were the most extreme and unequivocal so far, authorities on Sept. 24 said crypto transactions in China are banned and they will root out mining of digital assets.

Bloomberg, Chinese Regulators Are Serious About Banning Crypto This Time

9/26/2021

“

The clampdown in China comes as the country's central bank has been testing its own digital currency, the electronic Chinese yuan. A notice posted by the central bank explicitly called out Bitcoin and Ether, the two most popular cryptocurrencies, for being issued by 'non-monetary authorities.

New York Times, China Cracks Down Harder on Cryptocurrency With New Ban

9/24/2021

“

The potential breadth of the cryptocurrency reporting requirements included in the [U.S.] bipartisan infrastructure bill is a top concern for the industry despite assurances from at least one lawmaker that the rules won't be overbroad.

Taxnotes, Potential Breadth of Crypto Rules Worries Industry

9/13/2021

Cryptocurrencies overlap with key areas of the monetary and financial system

Some market watchers believe cryptocurrencies pose a threat to central banks' power over the money supply

Cryptocurrencies overlap with key areas of the current monetary and financial system.

Given their rapid growth, complexity, high volatility and potentiality for facilitating illicit activities, regulators and policy makers across the world are concerned about their inclusion into the existing system and revising the existing systems to fit them, if included.

Business Wire¹

“

Cryptocurrency already poses a significant detection problem by facilitating illegal activity broadly including tax evasion.

US Treasury²

“

China has said all cryptocurrency-related transactions are illegal and must be banned. Internet, financial and payment companies have been ordered to cease facilitating cryptocurrency trading on their platforms

The People's Bank of China³

Key takeaway

The increasing use of cryptocurrencies could be perceived as a threat to central banks' power over the money supply. China's approach to cryptocurrencies could be a sign of things to come.

There is a high possibility that governments across the world may aim to increase regulation on cryptocurrencies. There is also the possibility that governments may choose to ban cryptocurrencies which they feel they cannot control.

¹ "Cryptocurrency Market - Growth, Trends, and Forecasts (2020 - 2025)" Research and Markets, March 2020

² "Feds signal crackdown on cryptocurrency after volatile week" New York Post, May 21, 2021

³ "China says all cryptocurrency-related transactions are illegal and must be banned" TechCrunch, September 24, 2021

Cryptocurrency exchanges: While the cryptocurrency world continues to expand, regulatory authorities are considering regulating crypto exchanges

Regulatory challenges faced by crypto exchanges

- 1 The US Securities and Exchange Commission (SEC) is looking to apply securities laws on cryptocurrency exchanges.
- 2 The European Union and US officials have expressed concerns that cryptocurrencies are being used to conceal illegal transactions
- 3 Authorities around the world are taking measures to track crypto exchanges for flouting laws that are meant to prevent financial crimes, with officials citing the platforms use by terrorists and hackers.

The US government is also **tracking tax violations** by cryptocurrency exchanges

Question 3

In what direction do you believe global cryptocurrency regulation is likely to go in the near term?

- a. Focus on reporting compliance for all cryptocurrencies
- b. Significant restriction issuing / trading
- c. Discussion but little change
- d. Undecided / Other



03

Tax implications of Cryptocurrency

Global landscape | U.S.

Taxation issues: There is a lack of international tax consensus on cryptocurrency, though jurisdictions are tracking the tax revenue potential it can generate in future

Tax issues and implications around cryptocurrency

- 1 Cryptocurrencies are in rapid development and **tax policymakers are still at an early stage in considering their tax implications** ¹
- 2 There is no consensus among countries about **legal status and taxation process of cryptocurrencies.**
- 3 The decentralized and seemingly immaterial nature of cryptocurrency makes it **harder for government agencies, such as the IRS, to track and enforce the taxation of cryptocurrency, beyond a standard tax audit** ²
- 4 As per GBBC and World Economic Forum, in general **jurisdictions have opted to fit crypto assets into existing taxation frameworks** rather than create new frameworks – which has caused enforcement related issues for many jurisdictions ³

Countries around the world are taking note of the growth of cryptocurrency and tracking the enormous **tax revenue potential** it can generate

The US Library of Congress says that **most countries lack clear tax guidance on crypto staking.**⁴
Out of 31 nations, only 5 have tax guidance addressing cryptocurrency rewards via staking*.

*Staking is a process that allows rewards to be earned by holders of a specific coin

¹ "Taxing Virtual Currencies An Overview of Tax Treatments and Emerging Tax Policy Issues" oecd.org, 2020

² "Bitcoin, Cryptocurrencies, and taxation in the Digital Age", taxandbusinessonline.villanova.edu/blog

³ "Global Standard Mapping Initiative (GSMI) 2020 ", Global Blockchain Business Council, October 2020 | gbbccouncil.org

⁴ "US Library of Congress Says Most Countries Lack Clear Tax Guidance on Crypto Staking" Sebastian Sinclair, February 4, 2021

Tax implications: Multiple approaches are emerging

The tax treatment of cryptocurrency across various countries varies significantly

Country	Views on taxation of cryptocurrency
United States	Considered to be personal property and each transaction results in a gain or loss that is generally capital.
Germany	It qualifies as units of account and is therefore a financial instrument, taxed like any other currency .
Australia	Transactions are viewed as barter arrangements and cryptocurrencies are considered assets for capital gains purposes .
Canada	Cryptocurrency is seen as a commodity, not a currency and is taxed as property .
South Korea	Transactions are financial transactions taxed as a capital gain or miscellaneous income .

Only 5 out of 31 nations have tax guidance addressing cryptocurrency rewards via staking.* The US Library of Congress

Jurisdictions that define cryptocurrency differently will have conflicting views on the timing of taxable events, the nature of the resulting income (ordinary or capital), and the sourcing of the income (country A or B). However, international tax treaties have not yet made provisions to resolve these differences.

Depending on how the jurisdiction defines and taxes cryptocurrency, individuals who are subject to taxation in multiple jurisdictions may face significant issues when claiming foreign tax credits to offset double taxation.

The decentralized and seemingly immaterial nature of cryptocurrency makes it harder for government agencies, such as the IRS, to track and enforce the taxation of cryptocurrency, beyond a standard tax audit.

Countries around the world are taking note of the growth of cryptocurrency and tracking the enormous tax revenue potential it can generate.

OECD on taxing virtual currencies: OECD suggests policymakers to make tax treatment of virtual currencies coherent with the broader regulatory framework

A report by OECD

Taxing Virtual Currencies:
An Overview of Tax
Treatments and Emerging
Tax Policy Issues

Key considerations for policymakers on the taxation of virtual currencies

- 1 Policymakers may consider providing guidance on how virtual currencies fit within the existing tax framework
- 2 Policymakers may consider whether the tax treatment of virtual currencies is coherent with the broader regulatory framework
- 3 Guidance could also usefully indicate how other forms of crypto-assets (including security and utility tokens) are to be treated for tax purposes.
- 4 Policymakers may consider providing guidance that is comprehensive and addresses the major taxable events and income forms associated with virtual currencies

Other taxes

VAT - C-264/14 - Skatteverket v David Hedqvist: **The exchange of traditional currencies for units of the 'bitcoin' virtual currency is exempt from VAT**

- ▶ Multiple complexities and uncertainty still remain (back office costs, transactions in other crypto-assets etc)

Other global indirect taxes, wealth taxes, inheritance taxes, gift taxes: all to be explored

- ▶ **Example:** Delaware DOF has added "virtual currency" to the definition of unclaimed property

Variations in perspectives on global tax treatment are matched by uncertainty in accounting treatment



Cash equivalent?

Account as currency gain or loss (a variation on the treatment of foreign exchange)

Property - financial asset?

Account at fair value

Property - intangible asset?

Cost of acquisition (with impairment testing)

“

The IASB typically takes five years to develop a new accounting standard... and my prediction is cryptocurrencies will be gone before that time.

IASB Chairman,
pbs.twimg.com December 2018

The IASB has concluded the holding of cryptocurrency meets the definition of an intangible asset

ifrs.org June 2019

“

The board decided that it hadn't risen to the level of pervasiveness [where] it should be one of the priorities on our agenda.

FASB Chair,
[CFO Dive](https://www.cfo-dive.com) March 2021

Question 4

Which aspect of cryptocurrency taxes are you most concerned about?

- a. Individual income taxes
- b. Corporate income taxes
- c. Tax reporting obligations for brokers, exchanges etc.
- d. All of the above

U.S. Federal Tax Position

Internal Revenue Service Notice 2014-21

- ▶ For U.S. federal tax purposes, cryptocurrency is treated as property and NOT currency
- ▶ Realization of gain or loss on the sale of cryptocurrency under the general rules of IRC §1001
- ▶ Exchanges of virtual currency for other property (e.g. other virtual coins) trigger gain/loss
- ▶ Character of gain or loss depends if the cryptocurrency is held as a capital asset
- ▶ Challenging to specifically identify cryptocurrency inventory (due to volume and fractional percentages)
- ▶ Mining results in taxable income based on fair market value on date of receipt. Potential self-employment tax if mining as a 'trade or business'
- ▶ Recipients of virtual currency as payments for goods/services must include at the FMV (in USD at the date of receipt)
- ▶ Remuneration paid in virtual currency is subject to federal income tax withholding, FICA, etc
- ▶ Payments made in virtual currency are subject to information reporting to the same extent as any other payment made in property

Overall, for tax one must go through every IRC section related to investments and re-analyze its application to cryptocurrency

Other U.S. federal tax developments

- ▶ Revenue Ruling 2019-24 provided guidance for forks and airdrops
 - ▶ Taxable once you take “complete dominion” over the coin
 - ▶ Is there accession to wealth?
- ▶ IR-2019-167: IRS issued additional guidance on tax treatment and reminds taxpayers of reporting requirements
- ▶ CCA 202114020 (22 March 2021): Clarifies Revenue Ruling 2019-24 and provides example of Bitcoin’s hard fork with Bitcoin Cash
- ▶ Build Back Better Reconciliation Bill: **Cryptocurrency May Soon Be Subject To Wash Sale Rules** and constructive sales rules.

U.S. income tax disclosure is front and center

Form 1040 Department of the Treasury—Internal Revenue Service (99) **2020** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

Filing Status Single Married filing jointly Married filing separately (MFS) Head of household (HOH) Qualifying widow(er) (QW)
 Check only one box. If you checked the MFS box, enter the name of your spouse. If you checked the HOH or QW box, enter the child's name if the qualifying person is a child but not your dependent ▶

Your first name and middle initial Last name Your social security number
 If joint return, spouse's first name and middle initial Last name Spouse's social security number

Home address (number and street). If you have a P.O. box, see instructions. Apt. no.
 City, town, or post office. If you have a foreign address, also complete spaces below. State ZIP code
 Foreign country name Foreign province/state/county Foreign postal code

Presidential Election Campaign
 Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund.
 You Spouse

At any time during 2020, did you receive, sell, send, exchange, or otherwise acquire any financial interest in any virtual currency? Yes No

Standard Deduction **Someone can claim:** You as a dependent Your spouse as a dependent
 Spouse itemizes on a separate return or you were a dual-status alien

Age/Blindness **You:** Were born before January 2, 1956 Are blind **Spouse:** Was born before January 2, 1956 Is blind

Dependents (see instructions):

(1) First name	Last name	(2) Social security number	(3) Relationship to you	(4) <input checked="" type="checkbox"/> if qualifies for (see instructions): Child tax credit	Credit for other dependents
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>

1 Wages, salaries, tips, etc. Attach Form(s) W-2
 Attach 2a Tax-exempt interest 2b

Q5. The 2020 Form 1040 asks whether at any time during 2020, I received, sold, sent, exchanged, or otherwise acquired any financial interest in any virtual currency. During 2020, I purchased virtual currency with real currency and had no other virtual currency transactions during the year. Must I answer yes to the Form 1040 question? (3/2/2021)

A5. No. If your only transactions involving virtual currency during 2020 were purchases of virtual currency with real currency, you are not required to answer yes to the Form 1040 question.

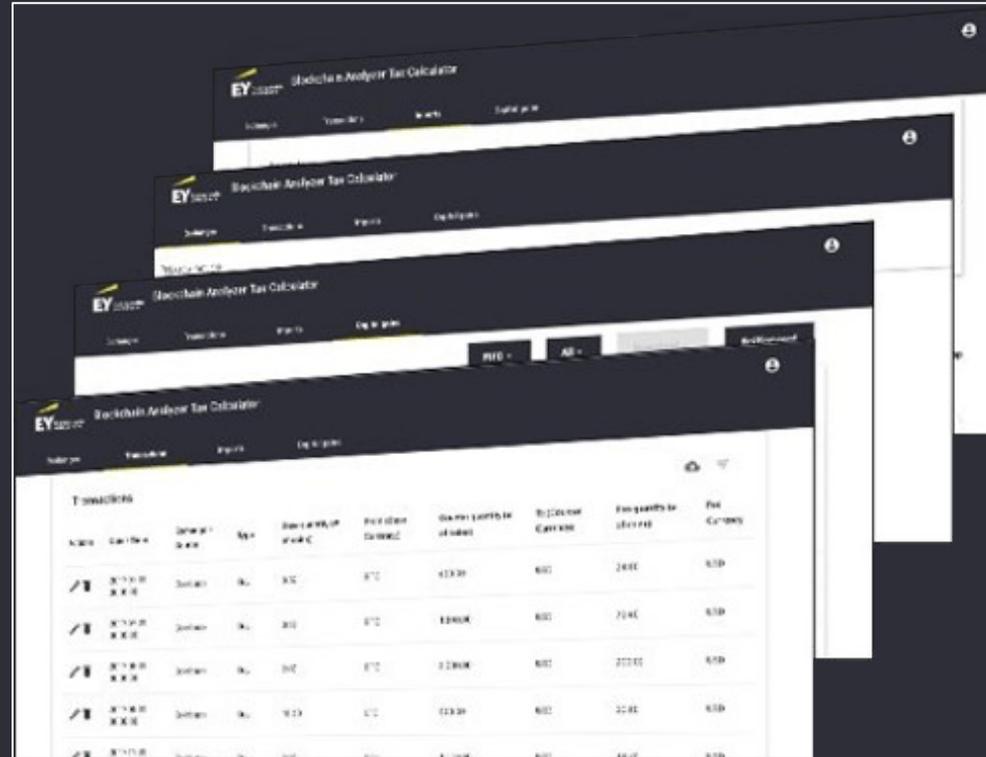
Source: www.irs.gov/pub/irs-pdf/f1040.pdf

Blockchain Analyzer Tax Calculator

EY Internal – available for internal EY Teams for EY client's Tax calculations

Enterprise Version – designed to support enterprise volumes, details available on request

B2C Version – for consumer use, currently in development



Key features

Capital Gains and Losses
– Automatically calculate the capital gains & losses

Download populated Form 8949 – PDF or CSV format

Tax Rollforward – Keep track of your cost basis for next tax year

Supports data formats from multiple **cryptocurrency exchanges**

US IRS New schedule 1

“At any time during 2019, did you receive, sell, send, exchange or otherwise acquire any financial interest in any virtual currency?”

Global Tax

Currently supports US Tax rules. Support for more country Tax rules is in development.

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Certain technologies mentioned herein may be in various stages of development. Please contact your locale Ernst & Young professional for additional information regarding anticipated market release timing.

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[XXXXX-XXXGb]
ED None

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Audience Q&A

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Thank You