

Bitcoin/Virtual Currency: Is it time for my state to provide formal guidance?

Joel Waterfield

Managing Director

joel.waterfield@us.gt.com

703.847.7595



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Discussion Points



- Increasing use in the marketplace
- How do States Tax it?
- What Regulatory Issues might be considered?

Virtual Currency: Rapid Increase in the Marketplace

Virtual Currency: Current Market Cap

Relatively Little Change in Q2 Amongst Top 10 Altcoins;
Paycoin was Q2's Biggest Loser

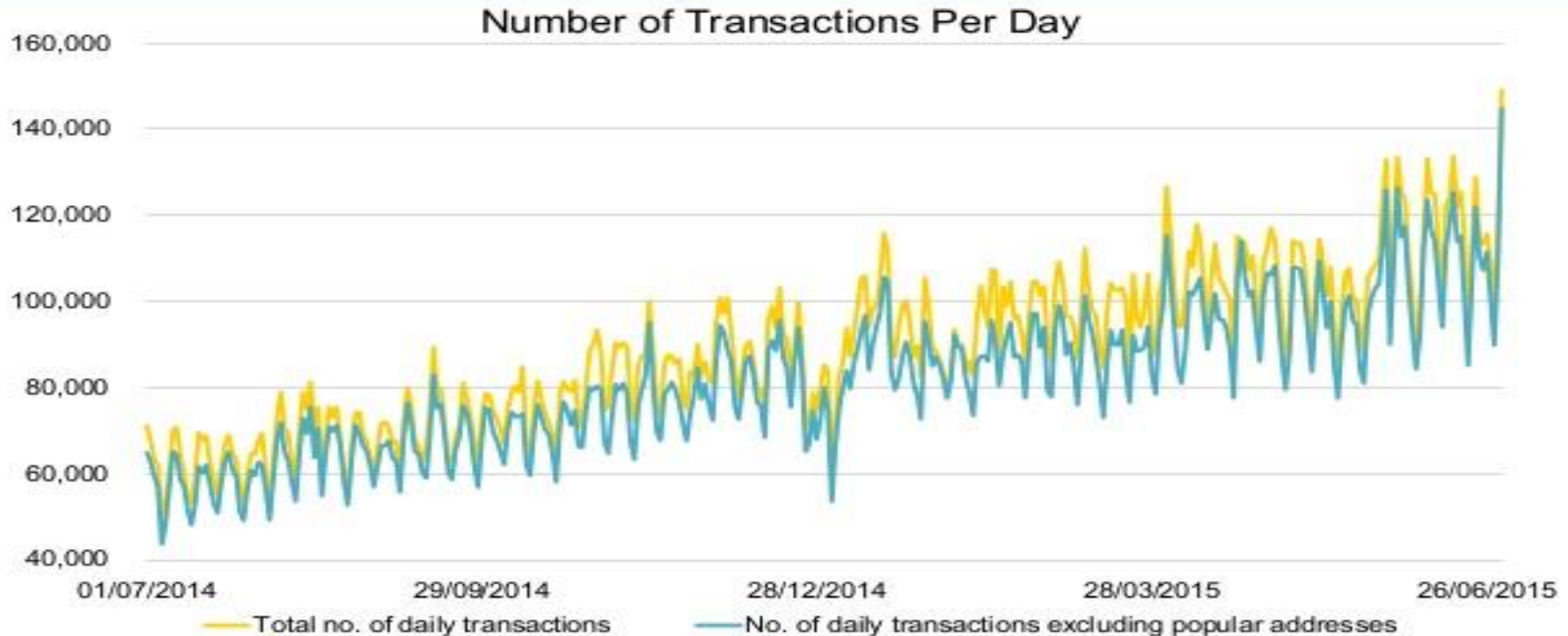
Q2 Rank	Name	Market Cap	Q1 Rank Δ
1	 Bitcoin	\$3,764,067,688	-
2	 Ripple	\$377,494,120	-
3	 Litecoin	\$166,725,659	-
4	 Dogecoin	\$20,653,353	+2
5	 BitShares	\$17,342,951	-
6	 Stellar	\$16,864,960	+1
7	 Dash	\$15,362,982	-3
8	 Nxt	\$12,765,963	-
9	 Peercoin	\$10,864,693	+2
10	 BanxShares	\$10,412,582	+3

Dropped from Top 10	Q2 Rank	Q1 Rank Δ
 MaidSafeCoin	11	-2
 Paycoin	48	-38

Data source: CoinMarketCap data as end of quarter (ie 31 March and 30 June 2015, respectively)

Virtual Currency:

Bitcoin Transactions Continue Rising Steadily

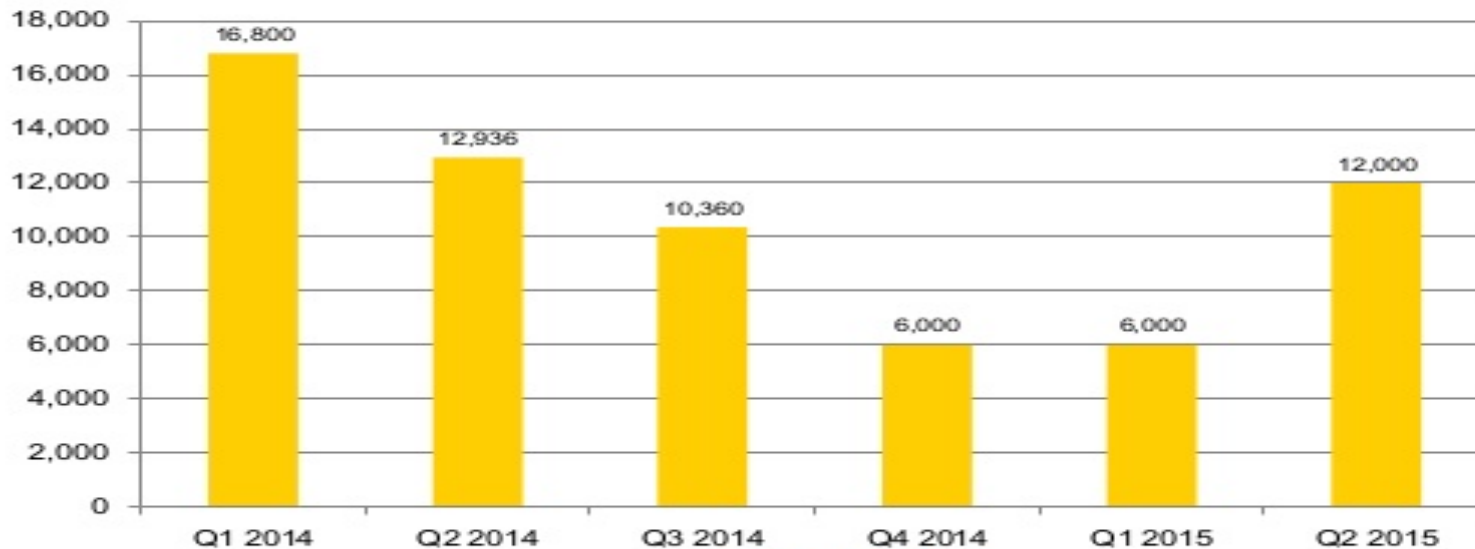


Source and note: [Blockchain.info](#), *100 most popular addresses.

Virtual Currency: Increase in Corporate Acceptance

Growth in New Bitcoin-Accepting Merchants
Picked-up in Q2, But Still Below Previous Quarters

Number of New Bitcoin-Accepting Businesses Added Each Quarter



Sources: [CoinBase](#), [BitPay](#)

Virtual Currency: Increase in Corporate Acceptance

More than 100,000 Merchants Now Accept Bitcoin,
Up from 88,000 in Q1 (+14%)



60K

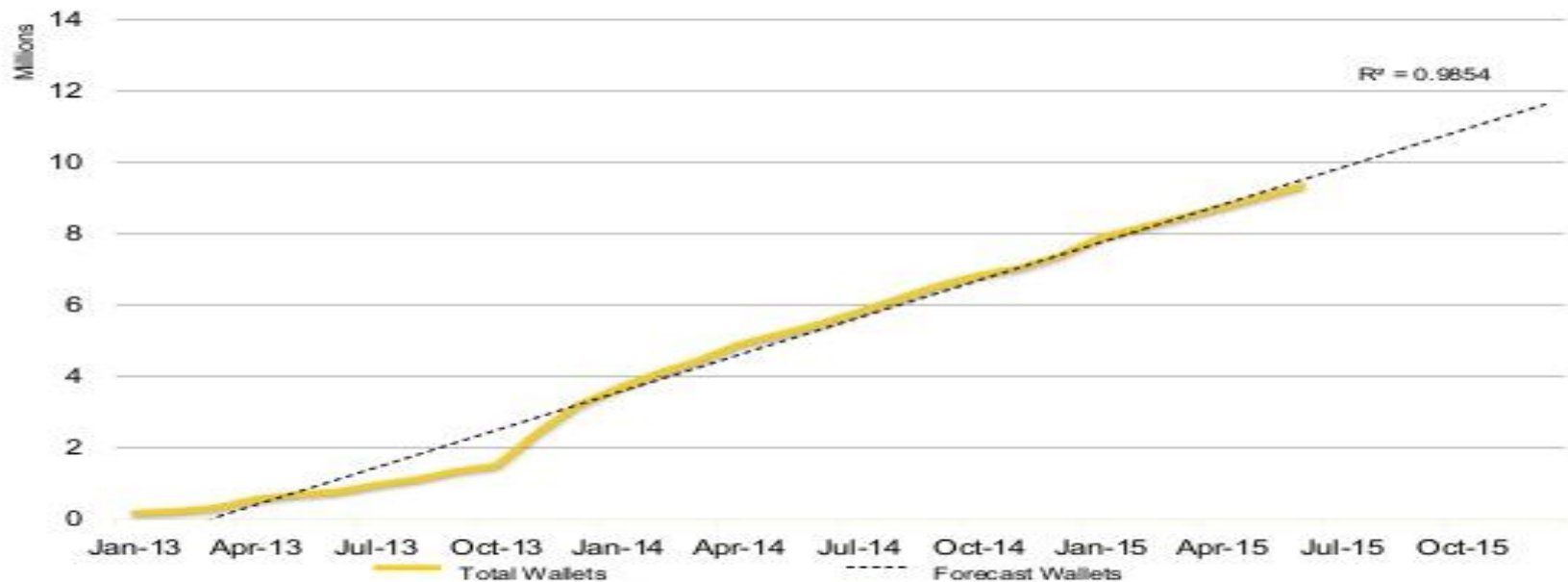


40K

Data sources: [Coinbase](#), [BitPay](#)

Virtual Currency: Increase in Corporate Acceptance

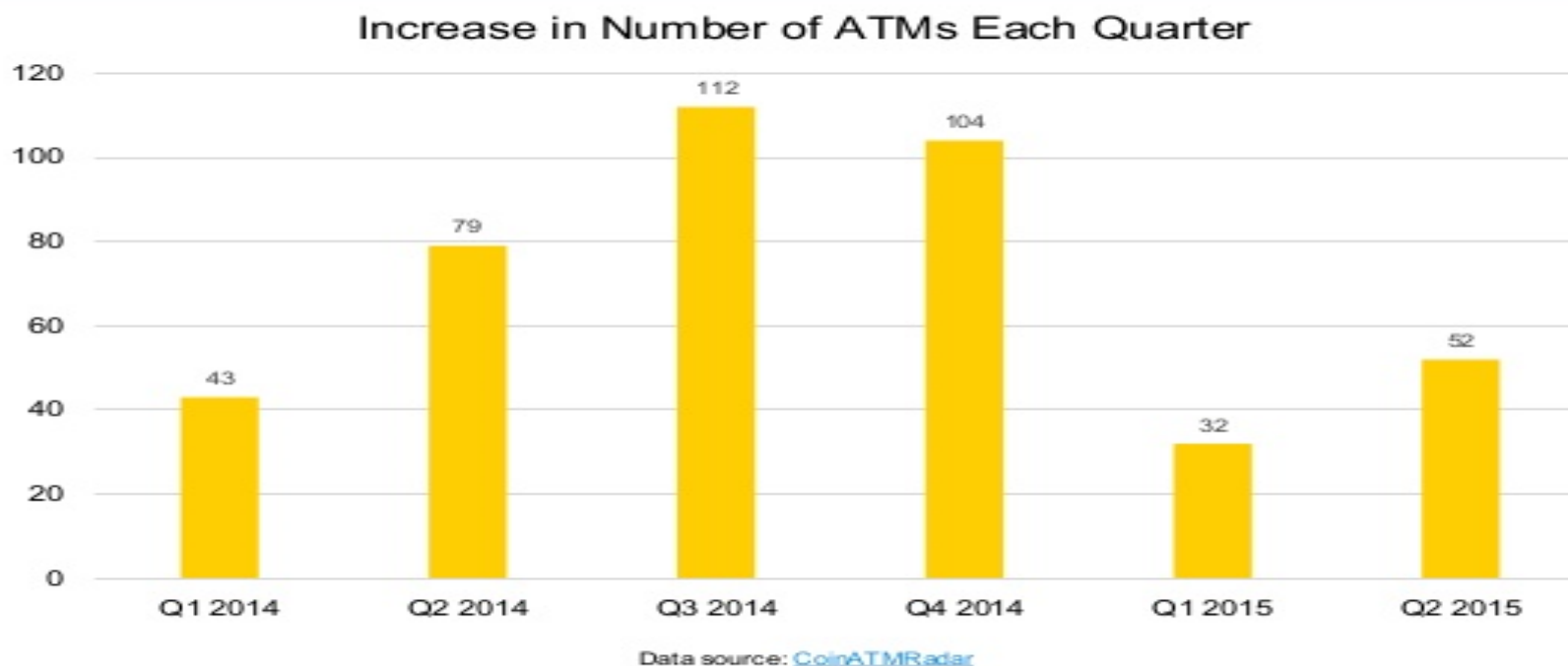
Forecast for Total Bitcoin Wallets by End of 2015
Maintained at 12 Million, but ...



Data sources and notes: total wallets based on data from [Blockchain.info](#), [MultiBit](#), [Coinbase](#), Andreas Schildbach (Android bitcoin wallet developer). Historical Coinbase data provided by [BitcoinPulse](#). Q2 MultiBit figures note made available, held constant as end of March.

Virtual Currency: Increase in Corporate Acceptance

While New Bitcoin ATM Growth Remains Below
Previous Levels ...



Key Bitcoin Adoption Metrics

	Quarterly				Year Ago	
	June-15	March-15	Q2/Q1Δ	Q1/Q4Δ	June-14	Δ
Commerce						
Wallets	9,345,510	8,457,207	11%	14%	5,467,263	2x
Merchants	100,000	88,000	14%	7%	65,640	2x
Merchants' annual revenue (\$bn)	187	187	0%	4%	30	6x
ATMs	426	374	14%	9%	126	3x
Unique bitcoin addresses	261,770	203,189	29%	29%	136,152	2x
Industry						
All-time VC investment (\$m)	\$832	\$687	21%	50%	\$252	3x
Number of VC-backed startups	113	105	8%	15%	58	2x
Media						
Mainstream media mentions	371	458	-19%	-10%	1035	-64%
Technology						
Network hash rate (billion/second)	351,177,610	346,028,956	1%	11%	104,506,281	3x
Valuation						
Bitcoin market capitalization (\$bn)	\$3.8	\$3.4	11%	-22%	\$8.0	-53%

Data sources and notes: CoinDesk, [Blockchain.info](#), [BitcoinPulse](#), [Github](#), [Coin ATM Radar](#). Figures are cumulative from start of records, except unique bitcoin addresses and media mentions, which are figures for the quarter ending that month. Number of VC-backed startups and VC investment unadjusted for closed companies: Melotic, Buttercoin, BitInstant, and TradeHill.



Virtual Currency: Who is Using Bitcoin?

How do I Account for it?

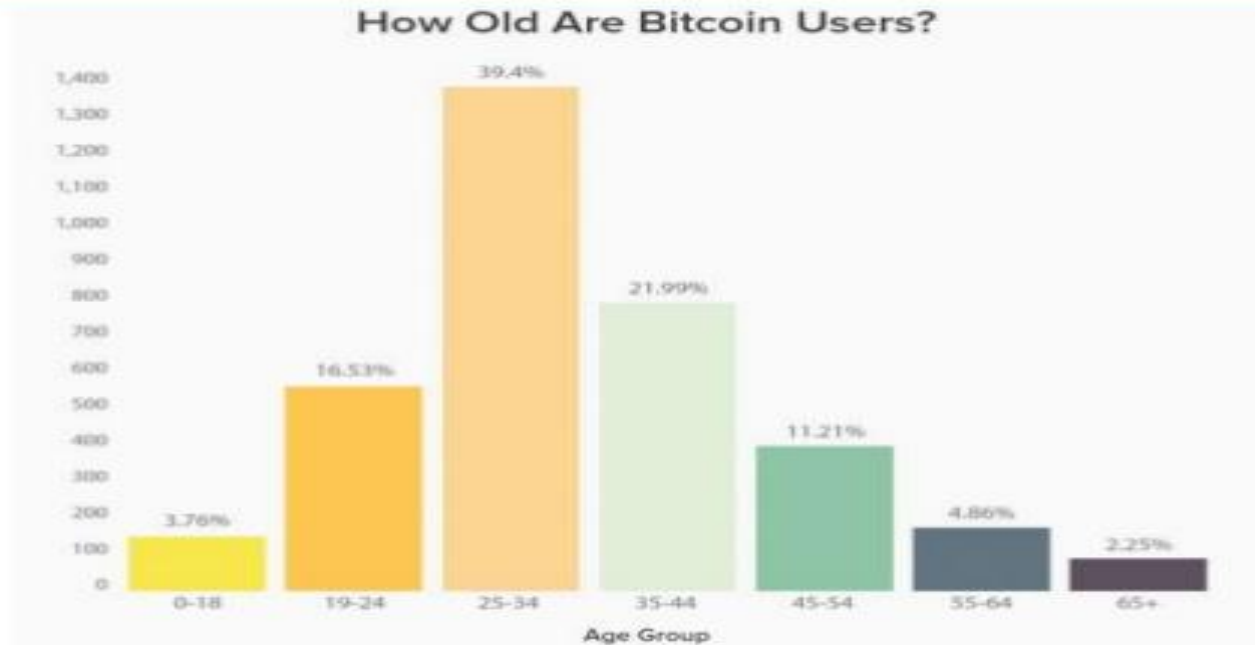
The Five Types of Bitcoin User

1. People who want a cheap, fast, global online payment experience
2. People who want access to a new suite of consumer payment applications
3. People who want to connect to the global economy for the first time
4. People who believe bitcoin is an attractive investment
5. People who value financial privacy

Sources: [CoinDesk](#), [Coinbase Blog](#)

Virtual Currency: Who is using it?

Who Uses Bitcoin: Almost 60% of Bitcoin Users are Under 35 Years Old



Source: ["Who Really Uses Bitcoin?" by CoinDesk](#)

Virtual Currency: Who is using it?

Who Uses Bitcoin: Largely Balanced Spread Across Different Earning Brackets



Source: ["Who Really Uses Bitcoin?" by CoinDesk](#)

Virtual Currency: Who is using it?

5% of Millennials Surveyed Said They Had Used Bitcoin, But Did Not Intend to Use it Again

51%

of respondents had never used bitcoin nor did they have any plans to do so

22%

of respondents used it at the time or had used it in the past, and intended to use it again

22%

of respondents had never used bitcoin before, but planned on using the digital currency

5%

of respondents said they had used bitcoin, but did not intend to use it again

Source: [Goldman Sachs Survey](#)

Virtual Currency: What is Causing the Increased Use?

Virtual Currency: What is causing the popularity?

Q2 Positive News



Banks and Wall Street executives are embracing blockchain technology



ItBit became first US-based exchange to receive a New York banking charter, granting it approval from the NYDFS to launch services nationwide



NASDAQ follows other Wall Street firms such as UBS in employing blockchain technology

Source: [CoinDesk](#). Images from [business2community](#) and LinkedIn

Virtual Currency: What is causing the popularity?

Escalation of Greek Crisis Reinforces Bitcoin Status as a Macro Hedge for Financial Instability



- *Reuters*: "Bitcoin surged by as much as 7% on Tuesday [30 June] and was on track for its longest winning streak in 18 months, as concerns that **Greece could tumble out of the euro drove speculators and Greek depositors into the decentralized digital currency.**"
- However, bitcoin's price plummeted by over 10% on Monday 13 July following the preliminary announcement of a new bailout agreement between Greece and its creditors

Sources: [CoinDesk](#), [Reuters](#). Image from [Pinterest](#)

Virtual Currency: Is Susceptible to the News Cycle

Bitcoin's Price Was Less Volatile Amid
a Mix of Positive and Negative News

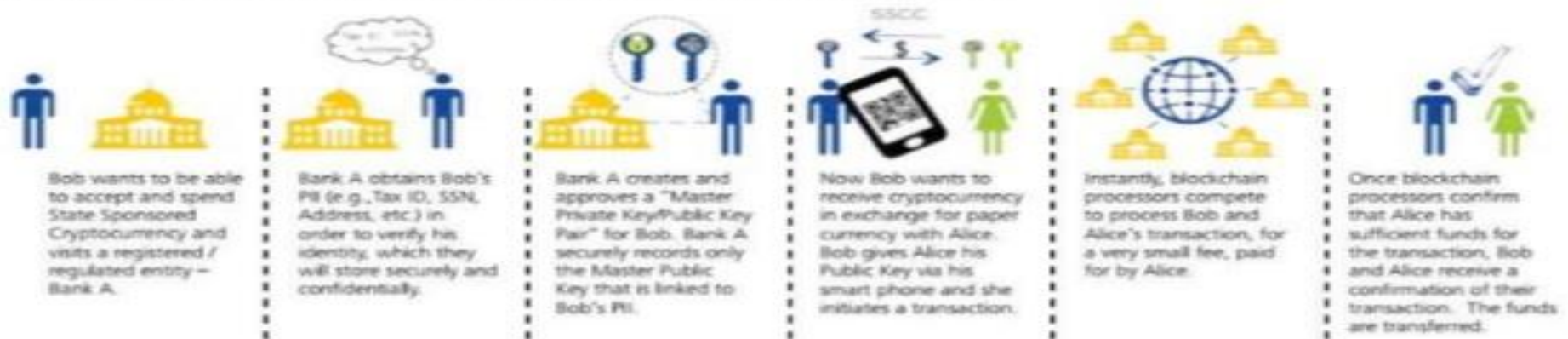


Virtual Currency:

Will there be a Government backed Virtual Currency?

Interest in Government-Backed Cryptocurrencies and/or Ledger Systems Continues to Percolate

Similarities and Differences between State-Sponsored Cryptocurrency and Bitcoin



- Citi suggested UK government and banks should create their own digital currency to reduce cost as well as improve efficiency and transparency
- David Andolfatto, Federal Reserve Bank of St. Louis has discussed the idea of a 'Fedcoin', citing benefits like greater efficiency, security and transparency

Sources: [CoinDesk](#), [MaoroMania](#), [Deloitte](#)

Bitcoin & Virtual Currency: How do I Tax it?

Federal Government Notice 2014-21

How is virtual currency treated for federal tax purposes?

For Federal Tax Purposes, virtual currency is treated as property, and general tax principles applying to property transactions apply to virtual currency transactions.

Federal Government Notice 2014-21

What is the basis of virtual currency received as payment for goods or services?

The basis of virtual currency that a taxpayer receives as payment for goods or services is the fair market value of the virtual currency in U.S. dollars as of the date of receipt.

See Publication 551, Basis of Assets, for more information on the computation of basis when property is received for goods or services.

Federal Government Notice 2014-21

Does a taxpayer have gain or loss upon an exchange of virtual currency for other property?

Yes. If the fair market value of property received in exchange for virtual currency exceeds the taxpayer's adjusted basis of the virtual currency, the taxpayer has taxable gain. The taxpayer has a loss if the fair market value of the property received is less than the adjusted basis of the virtual currency.

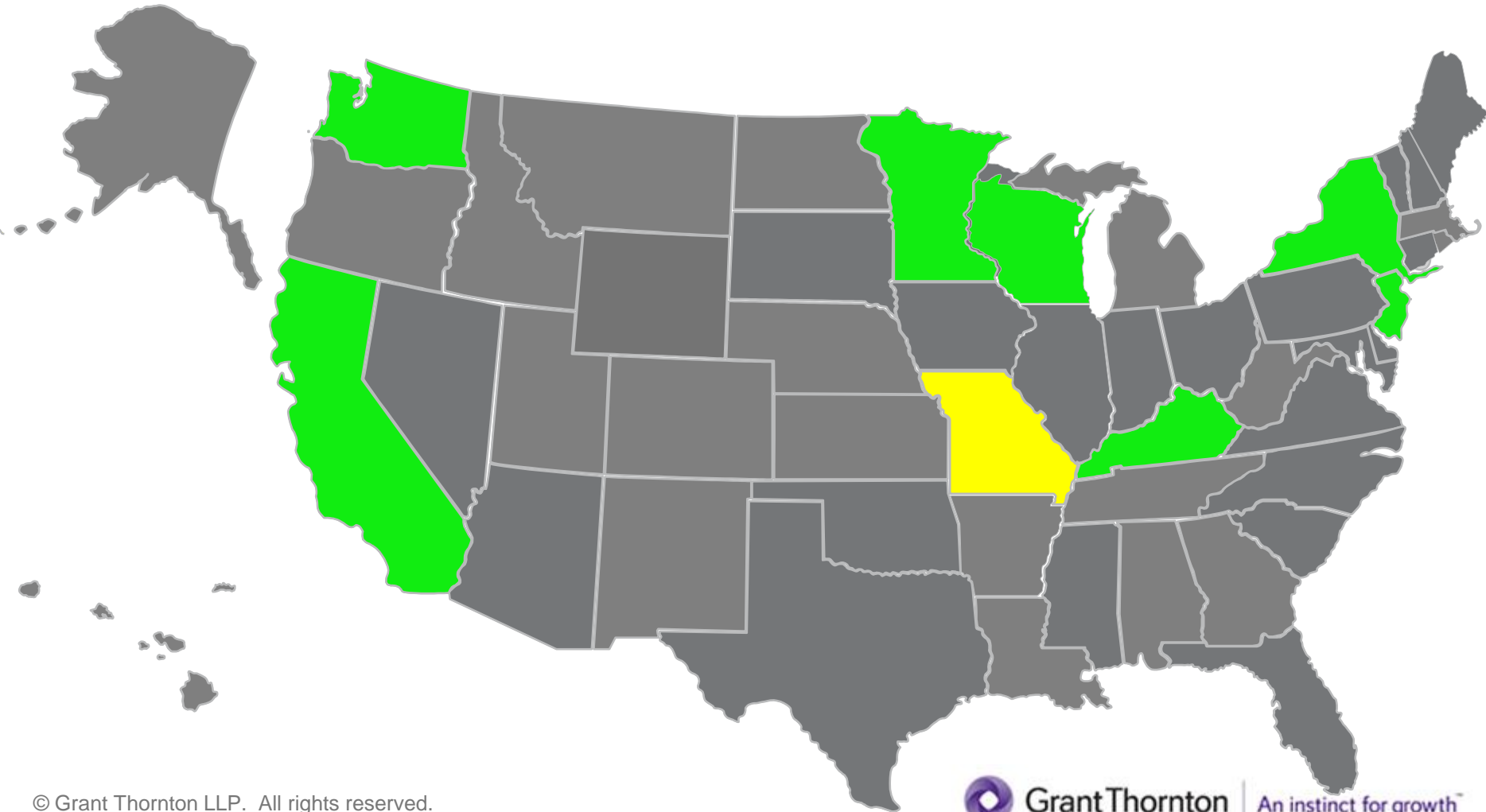
Federal Government Notice 2014-21

What type of gain or loss does a taxpayer realize on the sale or exchange of virtual currency?

The character of the gain or loss generally depends on whether the virtual currency is a capital asset in the hands of the taxpayer. A taxpayer generally realizes capital gain or loss on the sale or exchange of virtual currency that is a capital asset in the hands of the taxpayer. (e.g., stocks, bonds) A taxpayer generally realizes ordinary gain or loss on the sale or exchange of virtual currency that is not a capital asset in the hands of the taxpayer. Inventory and other property held mainly for sale to customers in a trade or business.

Bitcoin Virtual Currency: How Do States Tax it?

Virtual Currency: States Providing Guidance



Virtual Currency: State Guidance California

Publication 388 Tax Information Bulletin (September 1, 2014)

The measure of tax is the total amount of the sale, lease or rental price as the case may be, valued in U.S. dollars, whether received in U.S. dollars or otherwise.

The measure of tax from a barter or exchange transaction includes any amount allowed by a retailer to the customer for property or services of any kind:

- When a sale is made where the consideration is virtual currency, the measure of tax from the sale of the product is the amount allowed by the retailer in exchange for the virtual currency (generally, the retailer's advertised selling price of the product).

Virtual Currency: State Guidance

California (cont'd)

Publication 388 Tax Information Bulletin (September 1, 2014)

- *Example:* A restaurant sells a taxable meal to a customer with an advertised menu price of \$50. The customer pays the restaurant 0.065 Bitcoin for the meal. The measure of tax from the sale of the meal is \$50, which is the amount allowed by the retailer for the 0.065 Bitcoin at the time of the sale. Similarly, the restaurant sells a taxable meal to a customer with the menu price of \$50. The customer pays the restaurant 1 Bitcoin for the meal. The measure of tax from the sale of the meal is still \$50. The restaurant should retain a copy of the menu in its records to document the measure of tax from its virtual currency transactions.

Virtual Currency: State Guidance California (cont'd)

Publication 388 Tax Information Bulletin (September 1, 2014)

Retailers accepting virtual currencies as payment should retain documentation on the amount for which they regularly sell the same or similar property to their customers when payment is made in U.S. dollars.

Virtual Currency: State Guidance Kentucky

Kentucky Sales Tax Facts, Kentucky Department of Revenue (June 2014)

For Kentucky sales and use tax purposes, Bitcoins are the “consideration” provided by the purchaser in the transaction. Any business that accepts Bitcoins as a form of payment must convert the Bitcoin into U.S. dollars, and charge 6 percent Kentucky sales and use tax on any taxable transaction for which Bitcoin represents the financial instrument of consideration. Documentation must be maintained to verify the value of Bitcoin at the time of the transaction.

Virtual Currency: State Guidance Minnesota

Sales Tax Fact Sheet No. 167 (June 2015)

Bitcoin is another alternate form of currency that can be used and traded online. Bitcoin should be treated as cash.

Virtual Currency: State Guidance Missouri

Letter Ruling No. LR 7411, Missouri Department of Revenue, September 12, 2014

ISSUE:

- Is Applicant required to collect and remit sales or use tax upon the transfer of Bitcoins through Applicant's ATM?

RESPONSE:

- No. Applicant is not required to collect and remit sales or use tax upon the transfer of Bitcoins through Applicant's ATM.

Virtual Currency: State Guidance New Jersey TAM-2015-1(March 10, 2015)

The New Jersey Division of Taxation issued the following guidance regarding virtual currency and cryptocurrencies:

- Sale is treated as a barter transaction;
- Sales tax is due based on the amount allowed in exchange for the virtual currency;
- the customer owes tax based on the market value of the virtual currency at the time of the transaction in US Dollars; and
- for purposes of Corporation Business tax and Gross Income tax, taxpayer will realize gain or loss on the sale or exchange.

Virtual Currency: State Guidance New York TSB-M-14(5)C, (7)I, (17)S Dec 5, 2014

A seller making sales in New York State that accepts convertible virtual currency in exchange for taxable goods or services must:

- register for sales tax purposes;
- record in its books and records the value of the convertible virtual currency accepted at the time of each transaction, converted to U.S. dollars;
- record in its books and records the amount of sales tax collected at the time of each transaction, converted to U.S. dollars; and
- report such sales and remit any sales tax due in U.S. dollars when filing its periodic sales tax returns.

Virtual Currency: State Guidance New York

TSB-M-14(5)C, (7)I, (17)S Dec 5, 2014

Example 1:

An online retailer registered for NYS sales tax purposes accepts virtual currency from a customer as payment for home décor items that will be delivered in New York State. In effect, the customer has purchased the home décor items in exchange for the virtual currency, and the retailer has purchased the virtual currency in exchange for the home décor items. Because home décor items are taxable, the customer owes sales tax based on the taxable receipt for the purchase of the items. The taxable receipt is the fair market value of the virtual currency in U.S. dollars at the time of the transaction.

Virtual Currency: State Guidance

New York

TSB-M-14(5)C, (7)I, (17)S Dec 5, 2014

Example 2:

A vendor in New York State that accepts convertible virtual currency as payment creates custom computer software for sale to a client. The custom software is delivered to a New York location. Since the sale of custom software is not subject to sales tax, this barter transaction is an exchange of a non-taxable product for non-taxable convertible virtual currency. No sales tax is due on this transaction.

Virtual Currency: State Guidance New York

TSB-M-14(5)C, (7)I, (17)S Dec 5, 2014

Example 3:

A NYS resident sends her watch to be repaired at a NYS repair shop that accepts virtual currency for its services. Since watch repair services are subject to sales tax, the resident owes sales tax based on the taxable receipt for the purchase of the service. The taxable receipt for the repair service is the fair market value of the virtual currency at the time of the sale. The repair shop must collect the sales tax and must separately state the tax on any receipt provided to the customer. The repair shop must also record in its books and records the amount of the sale and the sales tax collected in U.S. dollars, and report the sale and remit the sales tax due in U.S. dollars.

Virtual Currency: State Guidance

Washington – Tax Topics

Accepting Virtual Currency as Payment

- How does tax apply? Tax applies to sales of Tangible Personal Property, Digital Products and Services provided in exchange for virtual currency in the same way as any other sale.
 - Example: Your business sells a taxable widget to a customer. The advertised price is \$50. The customer pays you 0.134 bitcoin for the widget. The measure of tax is \$50. This is the amount you sell for the 0.134 Bitcoin at the time of sale.
- What if the virtual currency value fluctuates before the business redeems it? It doesn't matter. The measure of the tax is not affected by virtual currency fluctuation.

Virtual Currency: State Guidance Wisconsin

Wisconsin Sales and Use Tax Report No. 1-14 (March 1, 2014))

The sales price from the sale of virtual currency is not subject to Wisconsin sales and use tax because the virtual currency represents an intangible right. When the virtual currency is redeemed for a taxable product, the transaction is completed and the retailer's tax liability accrues at that time. The tax is computed on the value of the consideration received by the seller, measured in U.S. dollars, as of the date the virtual currency is received.

Bitcoin & Virtual Currency: Issues for States to Consider?

Issues for States to Consider?

- Is it property, if so, is it taxable property?
- How should your taxpayers value transactions?
- What requirements should companies have to prove the transaction?
- What requirements should companies have to prove its existence?

Issues for Companies to Consider?

- Controls over Currency Conversion.
- Policies and Procedures for Procuring Goods and Services Using Digital Currency.
- Accounting Policies for tracking Digital currency, specifically around areas where current guidance is silent.

Issues for Companies to Consider?

- Policies and procedures to govern dynamic pricing of items that are offered in exchange for Crypto Currency
- What is the impact to systems
- Ensure compliance with State Regulatory Requirements
- Ensure transactions do not violate the FCPA, UK Bribery Act or Bank Secrecy Act
- Data Privacy

Bitcoin and Virtual Currency: Review

Review

- Use is becoming common in the Marketplace
- Tax issues both Fed and State
 - Income, Sales, Property
- What Should States be Considering
 - Tax and Regulatory
- What are Companies most concerned about
 - Internal Controls
 - Tax & Regulatory



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