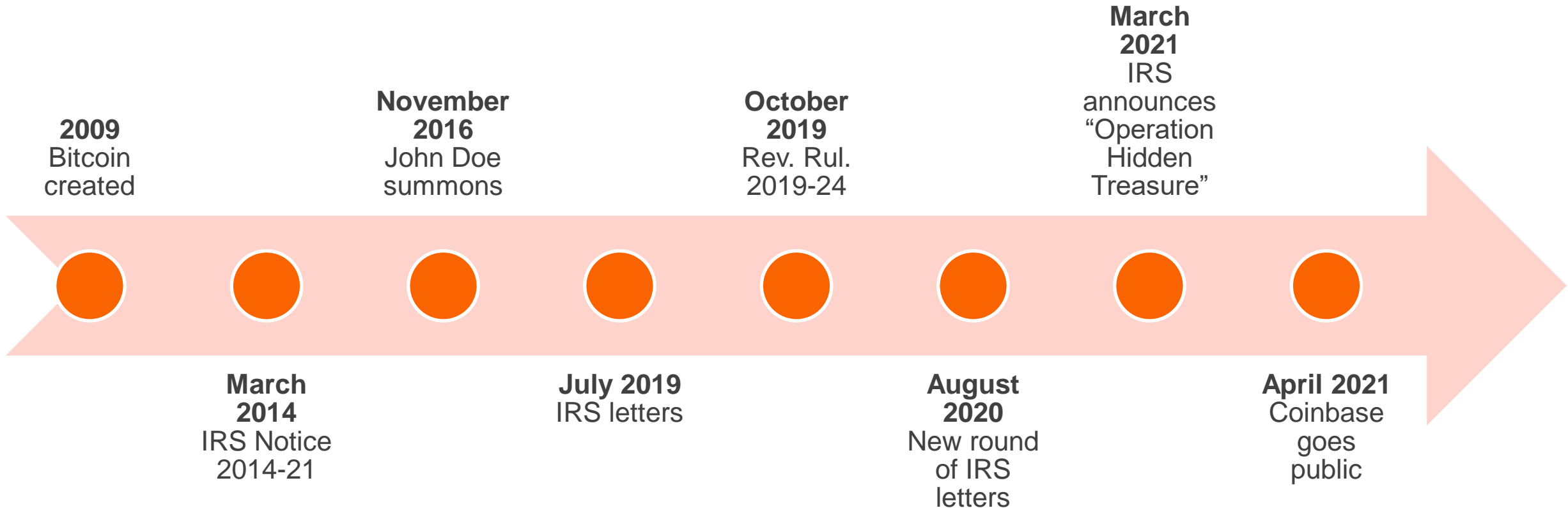


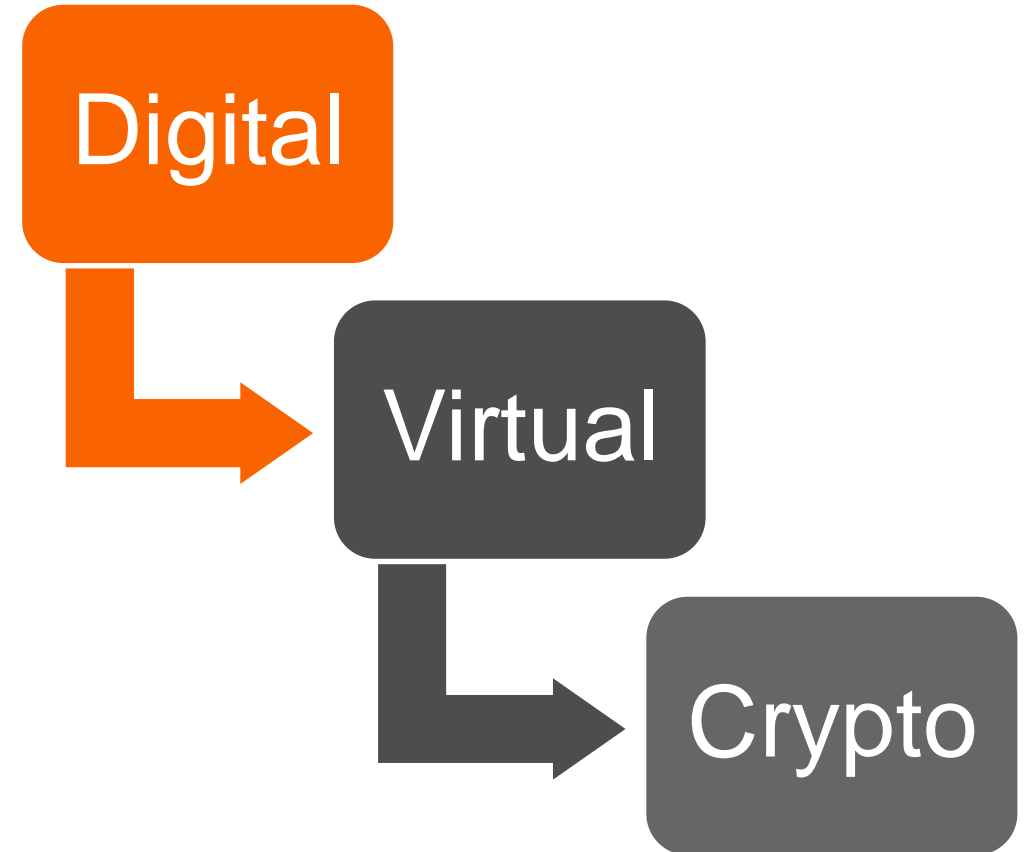
Games of Property: Emergent Tax & Ownership Issues with Cryptocurrencies

Virtual currency milestones



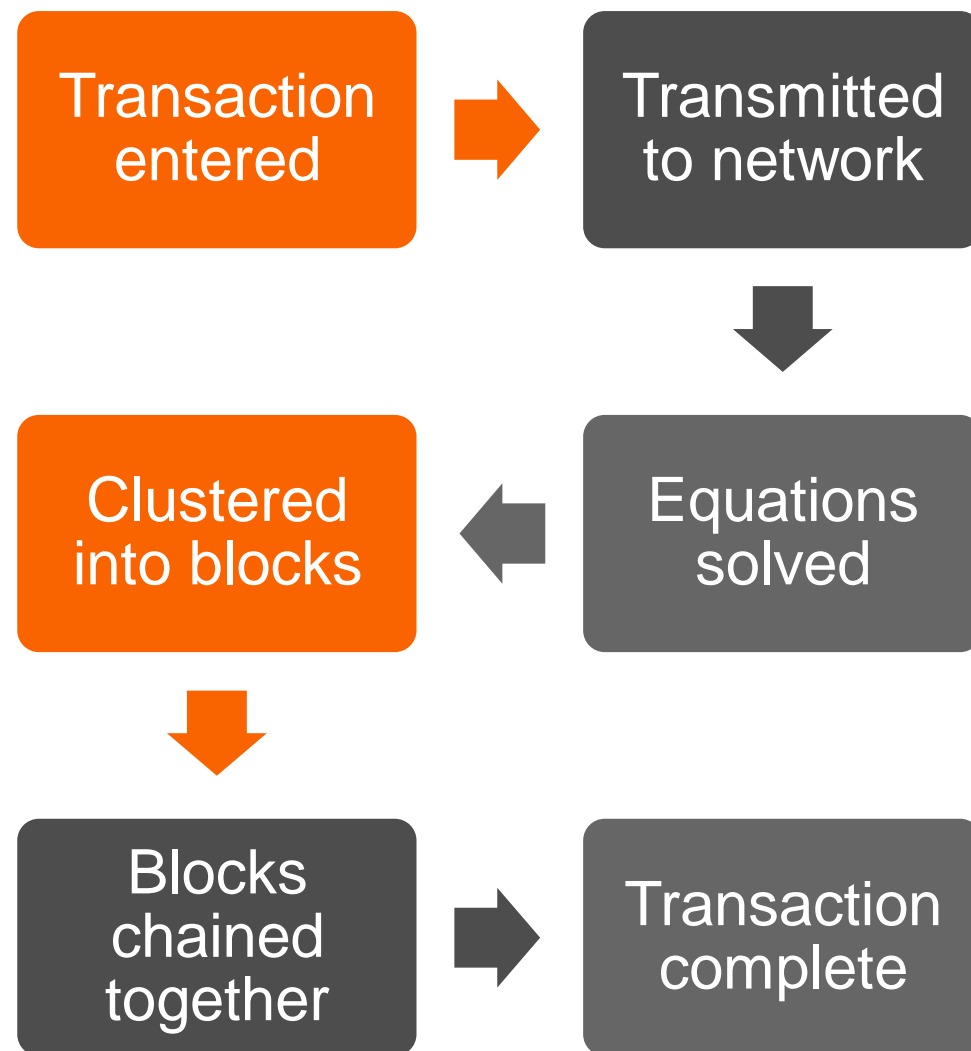
Top 10 terms you should know

1. **Digital currency**—currency available in digital form; can be regulated or unregulated
2. **Virtual currency**—a type of *unregulated* digital currency; can be centralized or decentralized
3. **Cryptocurrency**—a type of *decentralized* virtual currency that uses cryptography to secure and validate transactions



Top 10 terms you should know

- 4. Blockchain**—a digital ledger of transactions; data is stored in blocks that are chained together
- 5. Wallet**—a device, application, or service that stores the key used to sign transactions; used to track crypto ownership
- 6. Exchange**—a service that allows you to buy crypto or trade crypto for other crypto or U.S. dollars



Top 10 terms you should know

- 7. Hard fork**—a permanent divergence from a blockchain's latest version; may result in the creation of a new cryptocurrency
- 8. Soft fork**—upgrades that do not change the rules a blockchain must follow; does not result in the creation of a new cryptocurrency
- 9. Airdrop**—a distribution of cryptocurrency to numerous wallet addresses
- 10. Non-fungible token (NFT)**—cryptographic token that defines an asset uniquely



Popular virtual currencies

Bitcoin (BTC)

Ethereum (ETH)

Stellar (XLM)

Binance Coin (BNB)

Cardano (ADA)

Dogecoin (DOGE)

XRP (XRP)

Litecoin (LTC)

Bitcoin Cash (BCH)

Chainlink (LINK)

Virtual currency is *property* (Notice 2014-21)

Apply general tax principles

Gain or loss recognized upon sale or exchange

Must determine fair market value and tax basis

Can be classified as business property (mining), investment property, or personal property

Determining tax basis

Situation	Tax basis
Purchasing virtual currency with “real currency”	Amount (in U.S. dollars) Amount paid plus fees, commissions, and other acquisition costs
Receiving virtual currency for services provided	Fair market value of the virtual currency when received (assuming arm’s length)
Receiving virtual currency in exchange for property	Fair market value of the virtual currency when received (assuming arm’s length)
Receiving virtual currency following a hard fork	Amount included in income on tax return (fair market value of the virtual currency)
Receiving virtual currency as a gift	If gain upon disposition, the donor’s basis plus any gift tax paid; if loss upon disposition, lesser of donor’s basis or fair market value

Determining fair market value

Transaction facilitated by an exchange:

Use amount recorded by the exchange

If *not* recorded on a distributed ledger (“off-chain”), use the exchange’s trading price at the date and time the transaction would have been recorded if it had been an “on-chain” transaction

Determining fair market value

Peer-to-peer transaction (no exchange):

Determined as of the date and time the transaction is recorded on the distributed ledger (or would have been recorded if it had been an “on-chain” transaction)

IRS will accept value determined by a crypto or blockchain “explorer”

If an explorer is *not* used, you must prove that the reported value is accurate

Mining

Using your computer's hardware to calculate complex math problems

- Validates transactions
- Generates additional coins

Fair market value (in U.S. dollars) as of date of receipt included in gross income (ordinary)

Net earnings subject to self-employment tax

- Must constitute a trade or business
- Mining not undertaken as an employee

Investing

Most taxpayers fit into this category

Gain or loss equals the difference between the amount received in the exchange and the adjusted basis in the virtual currency

If held for investment purposes for more than one year, gain subject to preferential long-term capital gain rates when sold or exchanged (20% maximum rate)

- Otherwise, short-term capital gain (37% maximum rate)

Holding period begins on day *after* currency acquired

Receiving virtual currency as payment for goods or services

Fair market value (in U.S. dollars) must be included in income (ordinary)

- Basis is fair market value as of date of receipt

If later exchanged for other property or services, gain or loss will be recognized

If held for investment purposes for more than one year, gain subject to preferential long-term capital gain rates