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Episode title: Tax considerations and other challenges of cryptocurrencies

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Nadya Britton: This is Nadya Britton, Enterprise Content Manager for Tax and Accounting with the Thomson Reuters Institute, and today I'm thrilled to be joined by Mr. Kell Canty, CEO and Co-founder of Ledgible Crypto. Welcome, Kell. Before we get started, can you please tell our audience a little more about yourself and about Ledgible Crypto.

Kell Canty: Sure, and great to be here today, Nadya, and I really appreciate the opportunity to talk about a subject that a lot of people are very interested in and are seeing a lot more news on, but it can be a little cryptic and needs education and really, the next wave of the next generation of the Internet, as we as we know it. And what I'm referring to is cryptocurrency or blockchain or digital assets as you may know about those. And a little background on myself as well as the company, we started working in crypto back in 2013 when the only crypto was actually Bitcoin. So, that was the only single crypto around then and obviously now there are tens of thousands of different cryptocurrencies, but what we saw as the challenge was the opportunity to help traditional financial professionals, whether they be accounting firms or controllers at enterprises and companies that are utilizing crypto, as well as you know anyone from a legal standpoint, looking at diligence in terms of understanding cryptocurrency and financials and even governmental regulatory and other agencies that are looking into financial flows, and bridging the world of cryptocurrency and digital assets into a system that we call Ledgible. We make crypto legible, that is. And make it available so that these traditional professionals and all those ranges governmental, you know, business accounting for professionals and corporations have a tool and a set of tools that they can use to report on and do financial reporting and accounting and audit and tax around this brand new asset class that as you know, didn't really exist and, you know, the very first Bitcoin came into being in in 2009. And has actually, you know then gone to these tens of thousands of different assets and now is well over a trillion dollars. And we even have governments that are doing cryptocurrencies as a way of digitizing their own nationwide currency. So, it's really exciting. And it's great to be here to talk about it and again the evolution of what we're doing here at Ledgible with our with our platform and with our you know company as we go forward and help people with this really excited to share that journey with you.

Nadya Britton: We're just coming out of the tax season, right? Is there anything that stood out to you, you all from, you know, the crypto standpoint, and then I'll ask the follow up to that, really, it's probably building upon you know, year over year, how are you seeing that change as far as your organization, your software?

Kell Canty: So, the thing that we're seeing is finally more of a recognition of the, you know, need to report because right now in cryptocurrency we have the situation where people who are participating in it, whether it be a business or an individual or an institution or anything of that nature, is that they fully recognize their ability to make the money in the crypto, but accounting for it in doing the tax is something that is now, particularly with the infrastructure bill that was recently passed, this is where people who are not certain about the future of cryptocurrency and the government. It's interesting to tell them that well, if you've looked at the infrastructure bill, the United States government themselves

are counting on approximately \$28 billion in tax revenue to come from the taxing of cryptocurrency transactions. And everyone in cryptocurrency, and you may want to think about this a little bit, is very in favor of that because that assures cryptocurrency and regulation and the growth. So, with the taxation, that means that it is regulated and that it is, you know, counted on for tax revenues, and so it's kind of a promise or a great indicator that crypto is here to stay. Crypto will be expanding and the government is in the process of setting up the regulations and standards so that it gets even bigger in a regulated fashion as it goes forward. So, we're really excited about that and just happy about the growth of crypto and it's used for all areas, and so we're seeing anything from institutions coming to us for tax. A lot of professional accounting firms, occasional law firms, and governmental agencies coming in and wanting to speak to us and use our platform to take care of the obligations of calculating the taxes, filing the different reporting forms, and being able to do accounting in this new asset class. So, we're seeing a great uptick in the adoption and the recognition of that.

Nadya Britton: That's great and yeah, so I can only imagine, that's a really good point about the infrastructure bill that it absolutely is a great indication that for those skeptics that might think it's fleeting, or it's not, I think that solidifies at all right by saying that you know our government expecting taxing from it and more important for the comfort I think of society at large right. The regulatory piece that comes into play and there's greater clarity around that.

Kell Canty: And totally agree the other real quick point is that I think individuals are actually starting to notice as well because for the past couple of years a brand-new question on the world's most used tax form, the 1040 now has a question on the service the IRS calls cryptocurrency virtual currency. But now I call it question zero. The very first question on the form now is "have you transacted and gotten gains from participating in cryptocurrency?" so I think it's pretty neat that that is happening, and that people are recognizing that obligation. And again, it's coming at the point at which people are recognizing the widespread nature of cryptocurrency. The last estimates I read were over 50 million Americans own cryptocurrency, so it's a lot bigger than some people think, and it's continuing to grow. And obviously the regulations are coming along with it.

Nadya Britton: So, I'm going to ask you to, you know, maybe pull out your crystal ball a little bit, right? So, the last couple of weeks there's been, you know, the crypto market has taken some hits. And you know, there's all kinds of speculations. I'm not going to ask you to speculate around that unless you want to, but you know, looking ahead to the October deadline, what should tax preparers be thinking about or even individuals?

Kell Canty: And just quite frankly, there's certain cycles in new and innovative, you know technologies and asset class like look at the Internet back in 94 or something of that nature and you'll have some speculation and some failed companies or tokens like happened recently. But I don't know about your stock portfolio, but my stock probably is also down much like crypto, given the macro environment we're in right now, and again, you're probably talking about one of the you know particular coins that had an issue that is not a United States sanctioned coin, so there are issues there, but again, that regulations coming in play to take care of that. In terms of the October tax filing for extensions and by the way, we see over half, let's say, of the cryptocurrency tax returns being extended. If you think about you know the initial tax season is around 8 weeks and you look at the extension period and being, you know, about six months, there's a great opportunity for more complex individuals with situations. If you're in cryptocurrency, and you're doing lots of transactions or you've got other things, and naturally,

you'll extend so that you can do it in the correct and proper manner. And that's where we've set up with a lot of the major accounting firms and others of thousands actually to help them do that. And it's a way that they can take a little more time for accountants that are not quite used to it yet and utilize our platform to get that done. And we're happy to help them and get that satisfied for them. The other thing on a going forward basis, I think it's really important for them to think about and what our system has been enhanced to provide is that the best way to work with cryptocurrency, particularly because of the different ways you can do lots of neat things, earn 18% interest or swap coins for another coin directly without having to go to U.S. dollars and things of that nature, is to track it on a regular basis and so we have the ability within our platform so that when you're conducting a trade, or if you're doing a swap, or if you're doing something, you go ahead and like look at your portfolio on a on a daily basis and see what your current situation is you know, what are my unrealized gains and losses, or you know, should I think about this and so even after October when you're doing year end planning, you can do sophisticated things like tax loss harvesting with our platform wherein you can look at oh, I am up a little bit in that zoom stock that I bought when the pandemic started and unfortunately I had a little bit of that token that had a bad day a couple of weeks ago. You know what? I can sell the traditional asset and sell the cryptocurrency asset one for a gain, one for a loss and I'll go into next year from a tax neutral standpoint. And so, by our legible platform giving them that visibility for doing, you know, portfolio, view and management, you can actually do tax planning on this new asset class, which I think you know we're now maturing into the point where we get that with most financial advisors that are catering toward the high end recommending that if you're looking at alternative assets, that cryptocurrency should be maybe 5% of your portfolio. And actually, a news story I just saw today that JP Morgan recognized and said that we believe that cryptocurrency is our top choice for an alternative asset in people's portfolios. So, pretty amazing, given that the CEO years ago said that it wasn't even, you know, a valid thing. So, it goes from Being you know Jamie Dimon saying, oh bitcoins, a scam to think the number one recommended alternative asset by JP Morgan. That is quite a trajectory there, right?

Nadya Britton: Right and the ultimate stamp of approval, right? I mean, this is these are the people that live and breathe finance and supposedly are forward looking folks. So that's something I haven't seen that, thank you. So, you know, all of what you just said so, do you anticipate financial advisors will really lean into your tool then, because as a key instrument in assisting their clients, right? As they think about their finance, whether it's the individual, whether, you know, it's a company?

Kell Canty: Right, so, we have several companies that are actually, some are crypto natives, meaning that they use cryptocurrency as part of the services that they're providing to either people or other companies, but we've also, interestingly, starting to see some companies that are simply using cryptocurrency as part of their treasury function. So, if you have some funds, and given the inflationary environment that we find ourselves in now and you're looking at more traditional treasury type investments, again, this is a little bit on the leading edge I'll readily admit that, but if you're in a 8.3% or 8.5% inflationary situation and your treasury in your company can only earn 1% maybe or 1 1/2% and maybe you want to do tranches because crypto maybe is a little bit less you know, thought about or a little more unconventional, but you know there's ways of earning much more than that with cryptocurrency, so we're seeing a lot of thought and some movement in the use of crypto as a treasury vehicle for again aggressive companies or companies willing to experiment with all port portion of that. But it is definitely there and definitely moving forward.

Nayda Britton: Again, your crystal ball. Do you anticipate you'll see more of that? I mean, especially with you know, maybe the stable coins make folks feel a little more secure. Any thoughts around that?

Kell Canty: I think so. I think another thing that I'd like to mention that I forgot to say was around the executive order that we had, right? And so, the executive order that we had from Biden was around, you know, this is here to stay not only in the United States, but people need to remember that this is a global phenomenon. If you have a Bitcoin in Japan or Singapore or the UK, it's the same as it is here, right? So, this is a global phenomenon, and it's really important to think about it in that particular manner. And so, for the competitive nature of the United States and being a leader just like we did with the Internet, he brought together the EO and said that all the regulatory agencies that are little confused into commodity, is it a security isn't a property? Let's get everybody together and do a thoughtful, considerate analysis and say, well, this part goes over here, this part goes over here, this part goes over here. And when I think about that, when I think about the President of the United States tasking all the federal agencies to get together and lay out the rules of the game for an industry to me that indicates that it's only getting bigger, and you'll see more and more regulated entities coming in. I mean several of the top ten banks in America are either offering cryptocurrency products now or they're about to. And you have all of this activity happening, and the President mandating a rule of the road for everyone. And whenever you have clear rules and regulations, typically they that will expand it greatly. So, I see even more adoption going forward. As I say to some people. And I don't want to get into the details 'cause it's too long of a conversation. I had some few questions on I say is it going away and they even if they're you know, a little concerned about crypto, they go no, it's not going away and I say, alright, that's question number one question. Number two is it getting bigger? And they go, yeah, it's getting bigger and that's it. Those are my two questions, so that's how in a way I'll answer your question with my two questions. But again, regulatory wise institutional adoption wise consumers, over 50 million and growing I think it's pretty clear where the trajectory of it. If you think of crypto as the money of the Internet and you look at where we had no Internet back in 1990 to where we are now, I think we'll follow a similar trajectory.

Nadya Britton: Oh absolutely, thank you. Yeah, that was that was great. Thanks for those insights. We've got a couple minutes. Anything else you would like to leave our audience to contemplate, think about, final thoughts?

Kell Canty: I would say, you know, I kind of talked around where we are in crypto. We're still at the early stages. I think if you're looking at cryptocurrency and you're not already starting to educate yourself, you might find yourself a little bit behind, particularly as we start going through things. You know, the pandemic actually accelerated the adoption of cryptocurrency being natively Internet based, just like things like Zoom and others accelerated. I think perhaps given the interest rate and inflationary environment we're going into, that might cause another step up in acceleration of crypto assets as they go forward. Plus, the institutional adoption and the regulations, so I would I would say the doubters or the people who aren't fully aware of how rapidly this is moving and how wide it's getting that the earlier you look into it and start gathering the knowledge or the tools that kind of embodied the knowledge that you need, the better we actually run into a lot of CPA's that utilize our product or looking at doing that and or we talked to it at shows such as AICPA engage that will be at, and they say, well, I don't have any crypto clients, and given that 23% of Americans own crypto, what we typically tell them is that either you don't know that or you, or they haven't told you or your friends. Perhaps, you know, I don't want to talk about the worst case, but if you proudly told your clients that you don't think crypto is the

right asset to be in and they're in that asset, they may find an alternate provider that can help them a little more accepting, so I talk about in terms of retain and gain. Is that if you have clients that are doing this, and there are a lot of people doing it, then you need to be able to help service your client just like anything else, right? And then if you get a reputation for being known to do that new product well, you'll gain new clients as you go forward. So, I think it behooves everybody to learn about it and the earlier is better in terms of the education in this asset class.

Nadya Britton: Absolutely. Well, Kell, thank you so much for your wealth of information. Good luck at AICPA. I'm sure you're going to be quite busy with questions as I know tax professionals are very interesting or they're coming along and being interested in crypto in the way that they need to be, so again, thank you so much for your time.

Kell Canty: Thank you, really appreciate it.

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