



Cryptocurrency in 2022

CHATTANOOGA TAX PRACTITIONERS
APRIL 20, 2022

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Today's Learning Objectives

- Understand Blockchain principles & fundamentals
- Understand challenges that exist with Cryptocurrency
- Understand Cryptocurrency OpSec opportunities for clients
- How to purchase/sell/trade Cryptocurrencies
- How to navigate Schedule D
- Other CPA-oriented considerations

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Blockchain

PRINCIPLES AND FUNDAMENTALS

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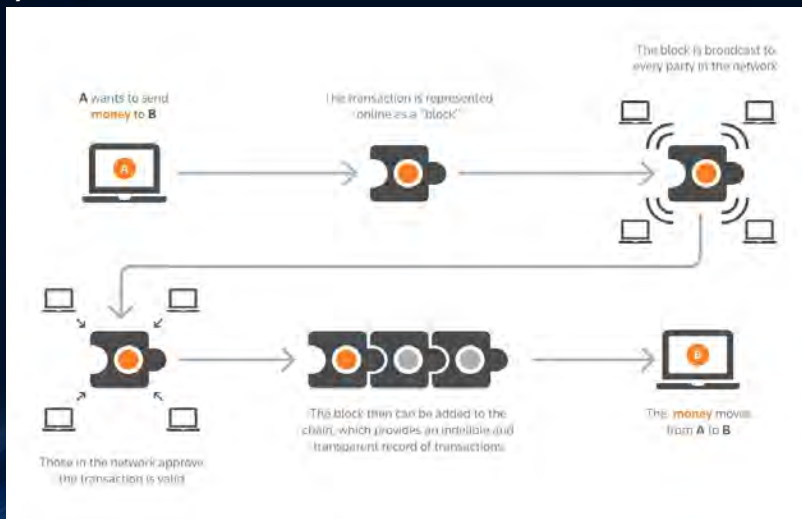
What is Blockchain?

- Debuted in 2008 whitepaper entitled, *Bitcoin: A Peer to Peer Electronic Cash System*.
- Based on 5 Principles:
 - Distributed Database
 - Peer to Peer Transmission
 - Transparency with Anonymity
 - Permanent
 - Computational Logic
- Combines two technologies that are decades old:
 - Asymmetric Cryptography (1977)
 - Distributed Systems (1969)



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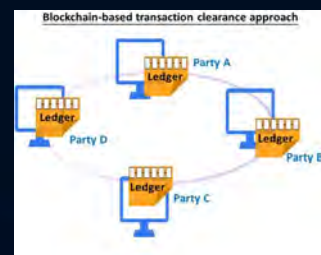
Why is it called Blockchain?



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Uses of Blockchain Technology

- Settlements / Payments
- Smart Contracts
- Decentralized Networks – (Internet, VPNs, etc.)
- Supply Chain Management
- Healthcare Records
- Voting
- Asset Trading (Currency, Equities, NFTs, etc.)



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Cryptocurrency

UNDERSTANDING ITS LIMITATIONS AND CHALLENGES

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Top 10 Cryptocurrencies as of April 13, 2022

1. Bitcoin (BTC)
2. Ethereum (ETH)
3. Tether (USDT)
4. Binance Coin (BNB)
5. USD Coin (USDC)
6. XRP (XRP)
7. Solana (SOL)
8. Cardano (ADA)
9. Terra (LUNA)
10. Avalanche (AVAX)



Honorable mentions: 11. Dogecoin (DOGE); 15. Shiba Inu (SHIB); 21. Litecoin (LTC)

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Limitations / Challenges

- Complexity
- Network size
- Human errors
- Environment Impact
- Politics
- Theft / Fraud
- Lack of regulation
- Scalability / Time to process



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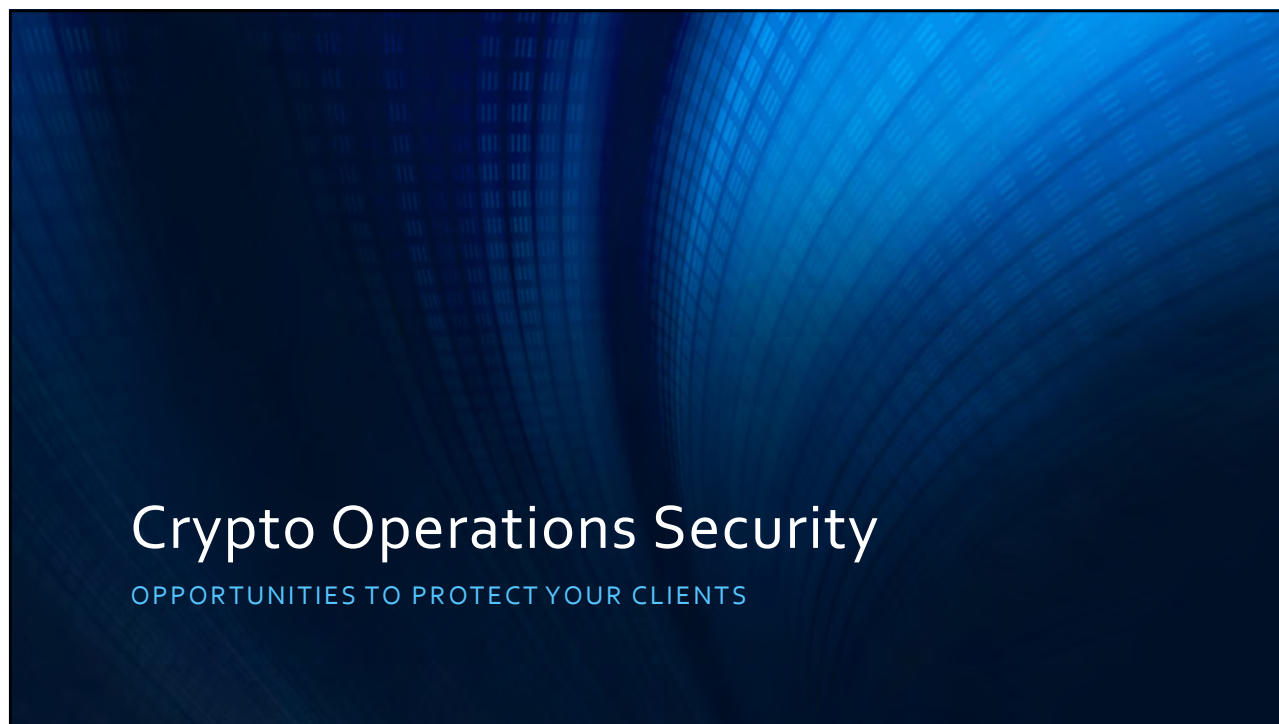
Tax Specific Challenges

- IRS treatment as Property, not Currency
 - Taxable events
 - Tracking Cost Basis
- Non-Fungible Tokens (NFTs)
 - Minting versus Investing
 - Business versus Hobby
- Reporting Cryptocurrency Losses
 - Casualty Losses
 - Theft Losses
 - Investment Losses



Image from opensea, <https://opensea.io/assets/oxbc4ca0eda7647a8ab7c2061c2e118a18a936f13d/3547>

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Crypto Operations Security

OPPORTUNITIES TO PROTECT YOUR CLIENTS

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A dark blue background with a subtle pattern of binary code and curved lines. The text is centered in white. At the bottom, there are two circular logos: the FBI seal on the left and the IC3 logo on the right. The text between the logos reads "FEDERAL BUREAU OF INVESTIGATION" and "Internet Crime Complaint Center IC3".

FBI's Internet Crime Report 2021

- Number of complaints (34,202) were down ~1,000 compared to PY.
- Losses increased by ~7x to \$1.6 billion (up from \$246 million)
- Most notable risks –
 - Cryptocurrency ATMs / QR Code Scams
 - Cryptocurrency Support Impersonators
 - Romance Scams



FEDERAL BUREAU OF INVESTIGATION
Internet Crime Complaint Center IC3



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2021 Crime Types continued

By Victim Loss			
Crime Type	Loss	Crime Type	Loss
BEC/EAC	\$2,395,953,296	Lottery/Sweepstakes/Inheritance	\$71,289,089
Investment	\$1,455,943,193	Extortion	\$60,577,741
Confidence Fraud/Romance	\$956,039,740	Ransomware	*\$49,207,908
Personal Data Breach	\$517,021,289	Employment	\$47,231,023
Real Estate/Rental	\$350,328,166	Phishing/Vishing/Smishing/Pharming	\$44,213,707
Tech Support	\$347,657,432	Overpayment	\$33,407,671
Non-Payment/Non-Delivery	\$337,493,071	Computer Intrusion	\$19,603,037
Identity Theft	\$278,267,918	IPR/Copyright/Counterfeit	\$16,365,011
Credit Card Fraud	\$172,998,385	Health Care Related	\$7,042,942
Corporate Data Breach	\$151,568,225	Malware/Scareware/Virus	\$5,596,889
Government Impersonation	\$142,643,253	Terrorism/Threats of Violence	\$4,390,720
Advanced Fee	\$98,694,137	Gambling	\$1,940,237
Civil Matter	\$85,049,939	Re-shipping	\$631,466
Spoofing	\$82,169,806	Denial of Service/TDoS	\$217,981
Other	\$75,837,524	Crimes Against Children	\$198,950
<i>Descriptors**</i>			
Social Media	\$235,279,057	Virtual Currency	\$1,602,647,341

Image from FBI's 2021 Internet Crime Report

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Common Crypto Cybersecurity Threats

- Deanonymization Attacks
- Attacks on wallets / exchanges
- Others:
 - Selfish Mining
 - Double Spending
 - 51% attack
 - Crypto-jacking

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Cryptocurrency Operations Security

- Keep systems, network devices, web browsers, etc. patched and up-to-date.
- Don't re-use passwords from other accounts. Make them complex!
- Enable Multifactor Authentication everywhere!!
 - Consider authenticator applications instead of via text or e-mail.
- Maintain email account(s) for crypto related activity, separate from personal / business email accounts. Don't share or use these addresses publicly.
- Don't keep cryptocurrency all in the same wallet/exchange.
- Be careful what information you're sharing through social media.

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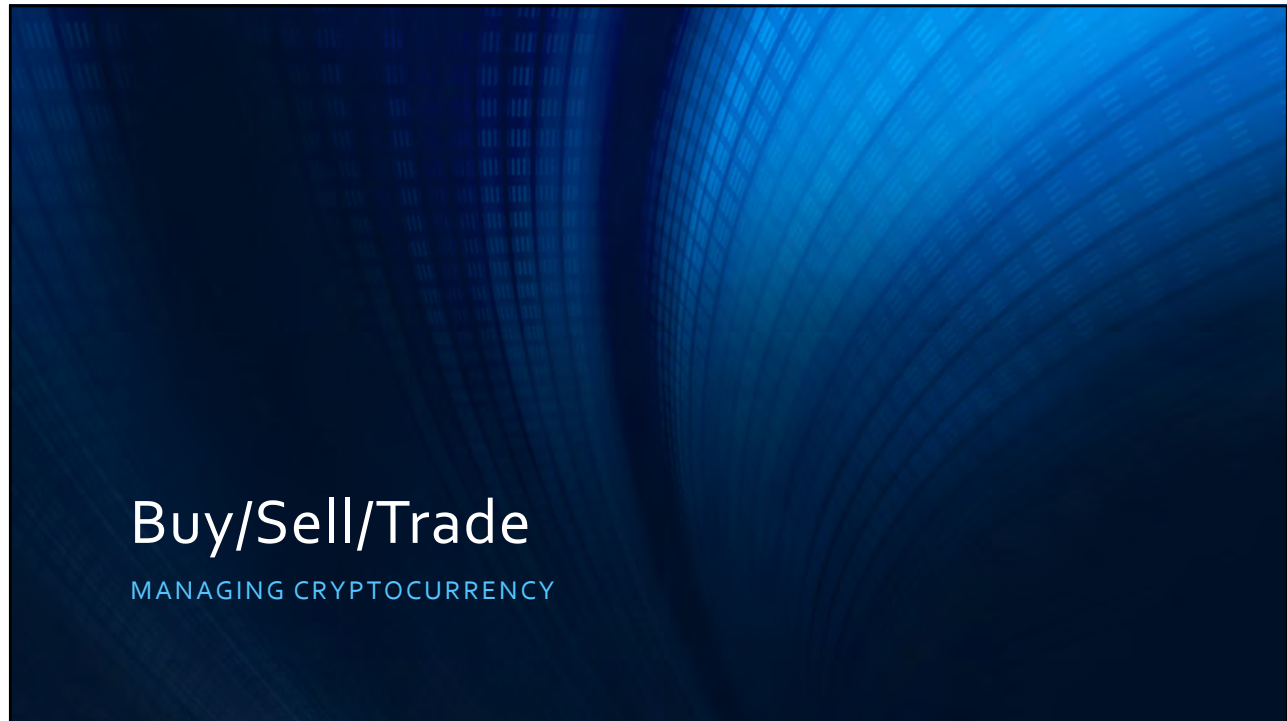
Additional Cryptocurrency Media

- TRUST NO ONE – Netflix Documentary
- Darknet Diaries Podcast
 - Episode 9: The Rise and Fall of Mt. Gox
 - Episode 93: Kik
 - Episode 112: Dirty Coms



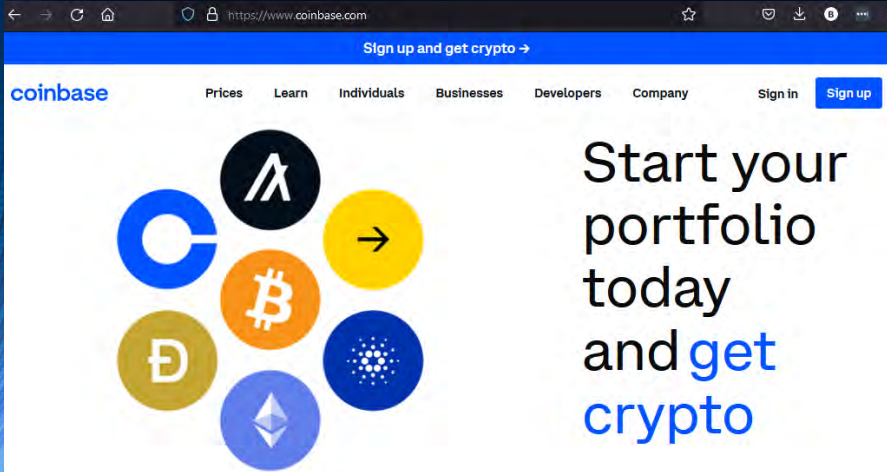
Images from: Darknet Diaries and Netflix

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Centralized Exchanges (“Off Chain”)



The screenshot shows the Coinbase website homepage. The browser address bar displays 'https://www.coinbase.com'. The page features a navigation menu with links for 'Prices', 'Learn', 'Individuals', 'Businesses', 'Developers', and 'Company'. There are 'Sign in' and 'Sign up' buttons. The main content area includes the Coinbase logo, a collection of cryptocurrency icons (Bitcoin, Ethereum, Litecoin, etc.), and a yellow arrow pointing right. The text 'Start your portfolio today and get crypto' is prominently displayed.

- Coinbase
- Binance.US
- Crypto.com
- Kraken
- Gemini
- Many others

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Decentralized Exchanges (DEX) ("On Chain")

- Uniswap
- PancakeSwap
- SushiSwap
- Many, many, many others

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Crypto Wallets / Blockchain App Gateways

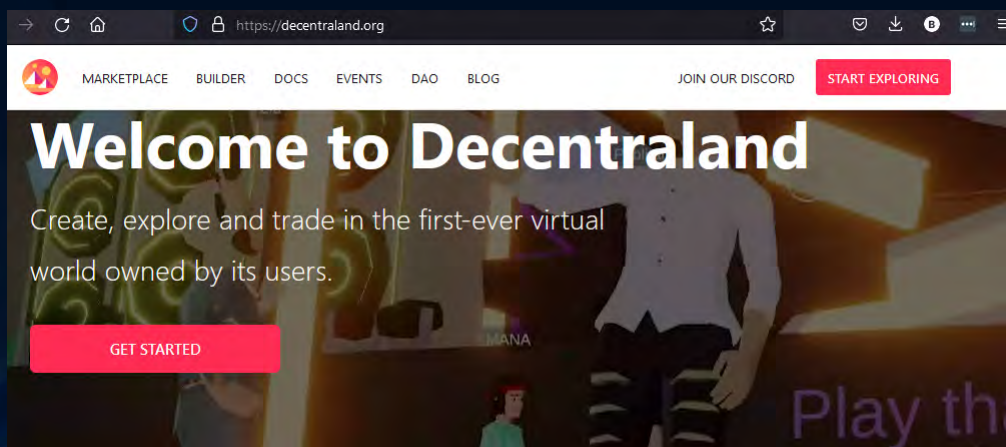
- MetaMask
- TrustWallet
- Coinbase Wallet
- Many, many, many others

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Blockchain Experiences

"DApps", Games, Metaverses, etc.

- Decentraland
- Cryptokitties
- NFTs
- Many, many, many others



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Schedule D

REPORTING DIGITAL ASSET CAPITAL GAINS AND LOSSES

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Solutions to Automate/Assist Capital Gain/Loss Calculations

The screenshot shows the Wolters Kluwer website with three featured vendors: SurePrep, CoinTracker, and Empire Suite. CoinTracker is circled in red. The text for each vendor is as follows:

- SurePrep:** Featured Vendor. SurePrep's 1040/1041 productivity solutions deliver seamless integration with your existing tax software to automate and streamline the entire tax process for both the taxpayer and tax pro.
- CoinTracker:** CoinTracker is the most trusted cryptocurrency tax software in the industry. Use CoinTracker with your clients to seamlessly and accurately reconcile and file their cryptocurrency taxes.
- Empire Suite:** Integrated audit and automated tax scheduling, time and expense entry and time off management applications from Empire SUITE make CCH Access even better.

Free	Hobbyist	Premium	Unlimited
0	59	199	Priced Individually
<small>Transaction limit exceeded</small>	<small>Transaction limit exceeded</small>	<small>Over three payments for the last year</small>	<small>Over three payments for the last year</small>
<small>45 Transactions</small>	<small>90 Transactions</small>	<small>1,000 Transactions</small>	<small>Unlimited Transactions</small>

- CoinTracker
- Legible
- TaxBit

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Automatic creation of Schedule D and Form 8949 (detailed & condensed versions)

Form 8949 Sales and Other Dispositions of Capital Assets

Department of the Treasury Internal Revenue Service

OMB No. 1545-0074

2021 Attachment Sequence No. 12A

Go to www.irs.gov/Form8949 for instructions and the latest information.

File with your Schedule D to list your transactions for lines 1b, 2, 3, 8b, 9, and 10 of Schedule D.

Name(s) shown on return: _____ Social security number or taxpayer identification number: _____

Before you check Box A, B, or C below, see whether you received any Form(s) 1099-B or substitute statement(s) from your broker. A substitute statement will have the same information as Form 1099-B. Either will show whether your basis (usually your cost) was reported to the IRS by your broker and may even tell you which box to check.

Part I Short-Term. Transactions involving capital assets you held 1 year or less are generally short-term (see instructions). For long-term transactions, see page 2.

Note: You may aggregate all short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the totals directly on Schedule D, line 1a; you aren't required to report these transactions on Form 8949 (see instructions).

You must check Box A, B, or C below. Check only one box. If more than one box applies for your short-term transactions, complete a separate Form 8949, page 1, for each applicable box. If you have more short-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

(A) Short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see Note above)

(B) Short-term transactions reported on Form(s) 1099-B showing basis wasn't reported to the IRS

(C) Short-term transactions not reported to you on Form 1099-B

1	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold or disposed of (Mo., day, yr.)	(d) Proceeds (sales price) (see instructions)	(e) Cost or other basis. See the Note below and see Column (e) in the separate instructions	Adjustment, if any, to gain or loss. If you enter an amount in column (g), enter a code in column (f). See the separate instructions.		(h) Gain or (loss). Subtract column (e) from column (d) and combine the result with column (g)
						(f) Code(s) from instructions	(g) Amount of adjustment	
	7069716704977099 SHLS	09/24/2021	10/06/2021	1,698.44	498.06			1,100.38

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Other Considerations

FOR CPA FIRMS AND CPA PROFESSIONALS

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Other Cryptocurrency Considerations

- Primary CPA clients with crypto activity are Individuals and Nonprofits.
- Nonprofits
 - Crypto donations are recognized as noncash contribution revenue at fair value.
 - Donated crypto is reported on Schedule M – Noncash Contributions.
 - Large donations may require acknowledging receipt of property by signing donor's Form 8283 – Noncash Charitable Contributions.
 - Sale of donated crypto may require filing Form 8282 – Donee Information Return.
 - Written acknowledgement should reference the digital assets received, without assigning fiat currency value (*e.g.* "Thanks for your donation of XX Bitcoin (BTC).")
 - Organizations can receive crypto through services like The Giving Block, which accepts donations via the Gemini exchange then immediately liquidates to cash and transfers to the organization.
 - Policies to update: Gift acceptance policy and Investing policy.

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Discussion

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