

Tax Considerations of Blockchain and Cryptocurrency



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Evolution in commerce



Cavepeople

Barter exchange –
clubs trading for meat
No technology



Internet

Virtual storefronts
Download software



Blockchain

Distributed ledger
Smart contracts
Use of Tokens



Mail, common courier, live services

Where were services performed?
Where was title of property
transferred?



SaaS/Cloud

Sale?
Service?
License?

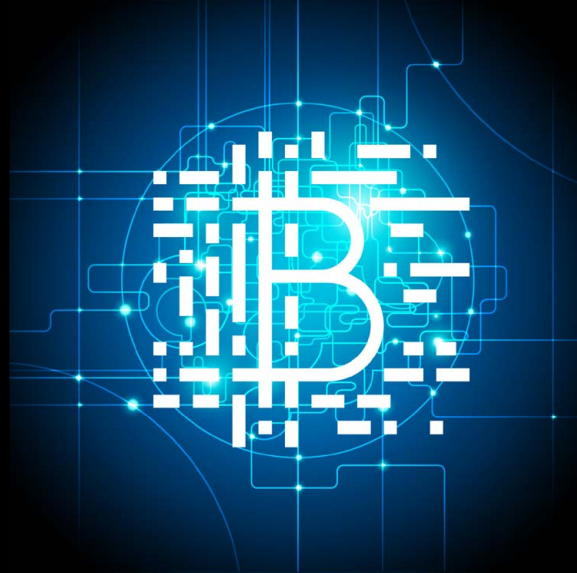
Technology

Taxability

Regulation

A World of Barter Transactions

Fair Market Value
 Volatility
 Basis Tracking
 No conversion back to fiat
 Unnatural accounting cycles
 Impacts every accounting cycle
 Cannot tie to cash flow
 No bank reconciliations



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Enabling Innovation

Tokens - payment and enabling technology

Transparency

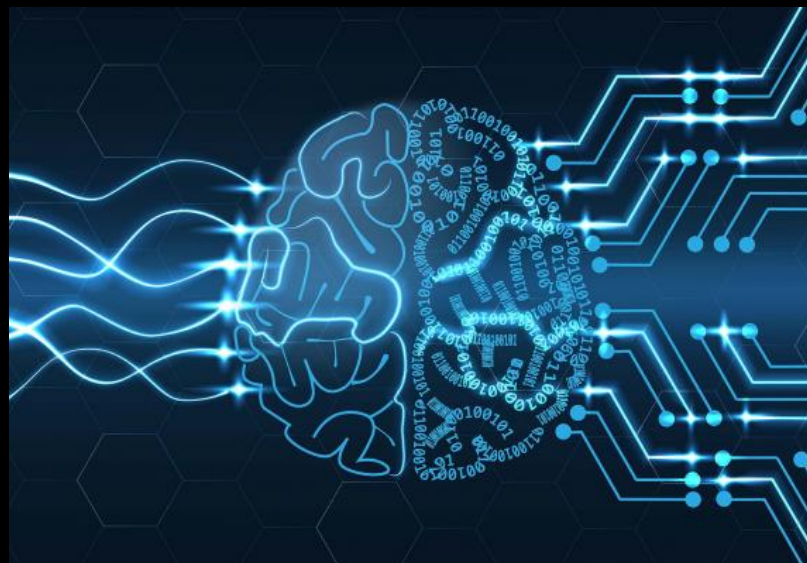
Revenue splits

Locking rights

Platform access

Validation

Identity



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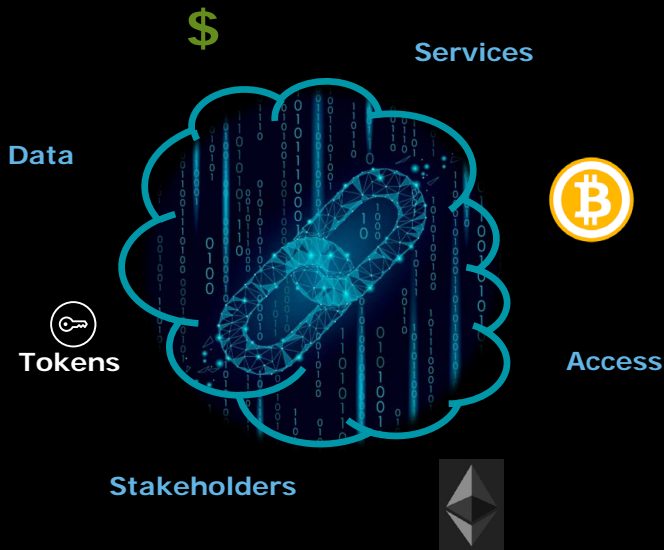
Where is the **business**?



Role and Location of the **humans**

Role and location of the **machines**

What's the **thing**?



Property

Commodity

Cash Equivalent

Security

Deposit

Deferred Revenue

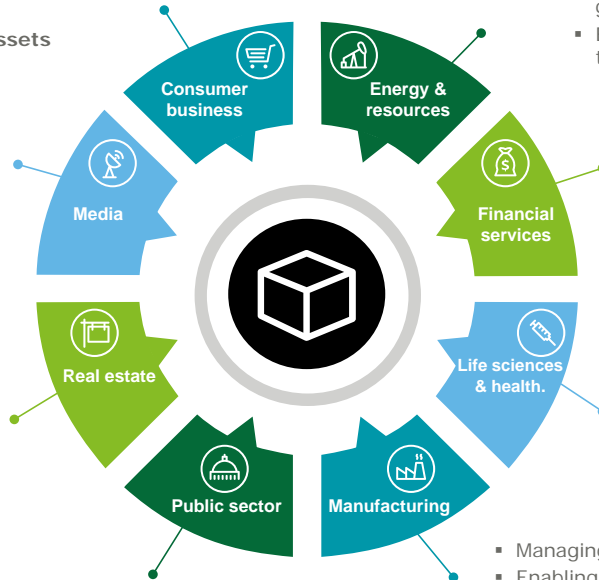
BLOCKCHAIN IS IMPACTING EVERY INDUSTRY

- Digitizing warranties for improved management
- Preventing trade of **stolen goods**
- Distributing and trading in **digital assets**

- Verifying **media authenticity**
- Creating a **decentralized, shared economy**
- Transforming phones to **portable blockchain wallets**

- Transferring existing **land deeds**
- Migrating the **land registry** onto a transparent, immutable ledger

- Managing **registered IDs**
- Creating secure voting platforms
- **Time stamping** of certifications



- Integrating **cryptocurrencies** into existing gas station infrastructure
- Enabling **oil commodities investment** trading in **carbon emissions**

- Supporting seamless **cross currency transactions**
- Facilitating direct **peer-to-peer payments**

- Preventing **medical data forgery**
- Tracing and preventing counterfeit **pharmaceuticals**
- Creating and recording a person's **genetic map**

- Managing devices such as **sensors**
- Enabling machinery to **autonomously manage service times** and supply schedules
- Creating transparency and **secure traceability of materials**

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PAUSE! Check the Audience

Industry

- Manufacturing
- Telecom
- Advertising
- Real Estate
- Healthcare
- Entertainment
- Technology
- Retail
- Services

Use Case

- Tokenized Business Models
- Crypto as a means of Payment
- Investing
- Dealing
- Trading
- Blockchain Enabled Technology Strategy



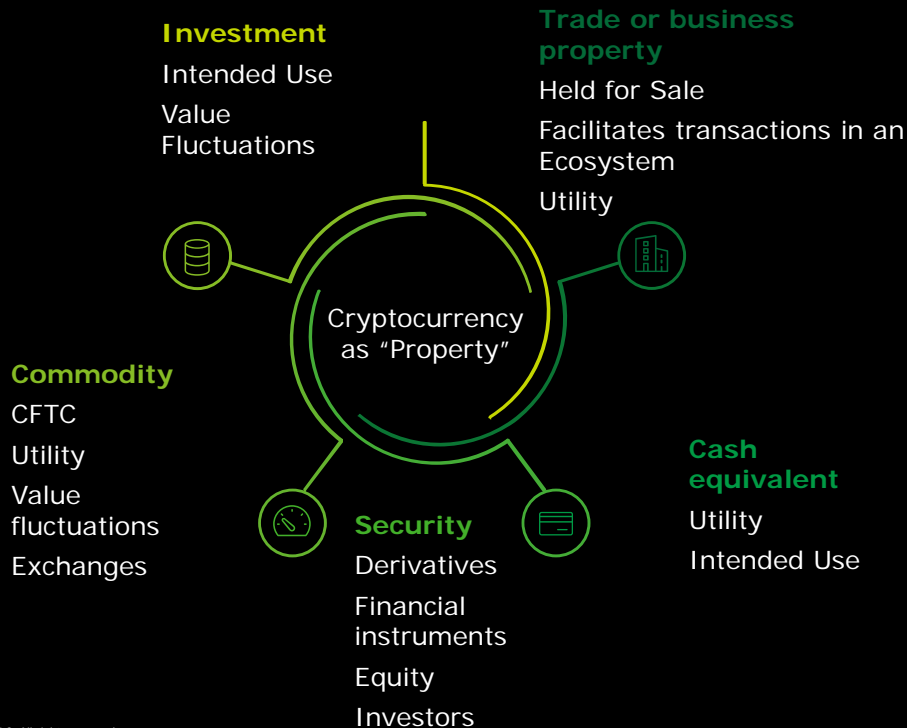
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IRS Notice 2014-21: "Virtual Currency"

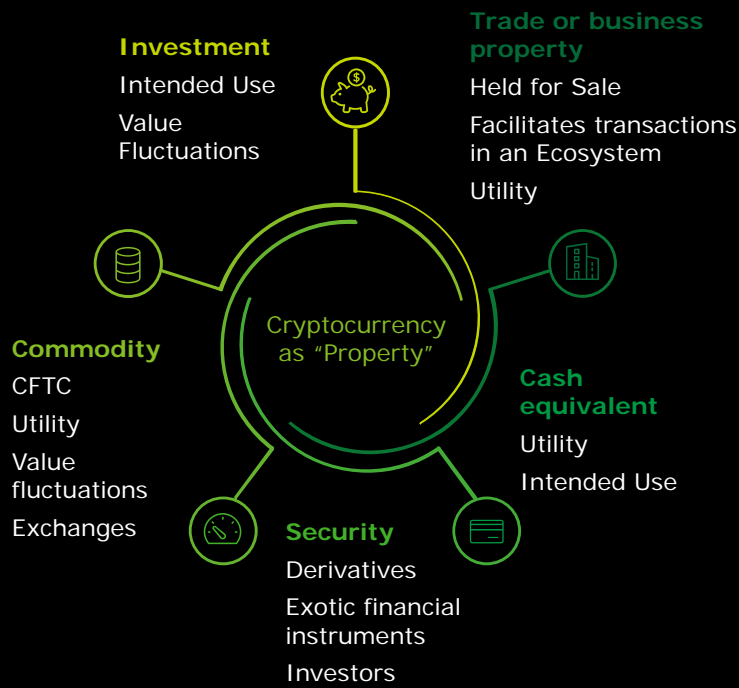
Property	<ul style="list-style-type: none"> • Not a currency • No other clarifications made
Receipt in exchange for goods / services	<ul style="list-style-type: none"> • Taxable at FMV at time of receipt
Exchange of virtual currency	<ul style="list-style-type: none"> • Taxable barter exchange
Mining	<ul style="list-style-type: none"> • Taxable
Character	<ul style="list-style-type: none"> • Determined based upon how used by taxpayer (capital vs. ordinary)
Used to pay employees	<ul style="list-style-type: none"> • Compensatory – withholding and reporting



Classification

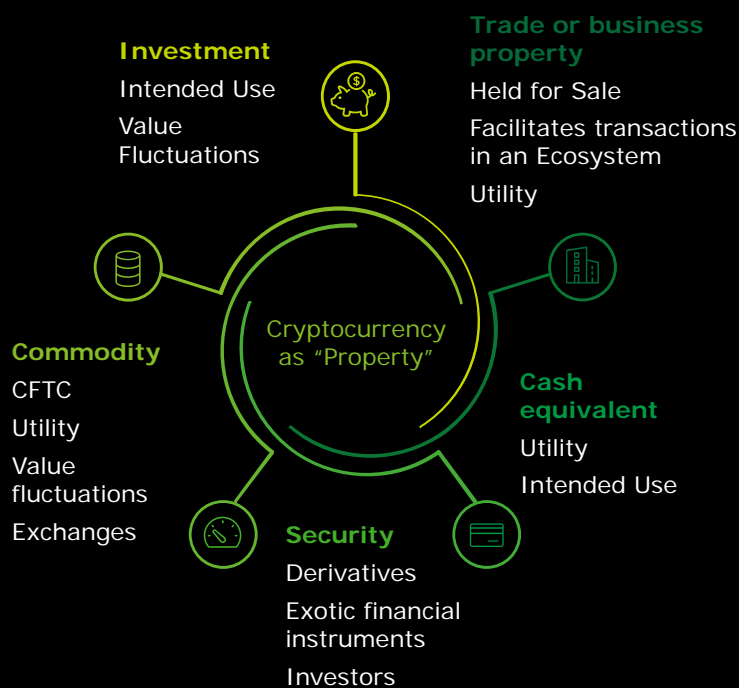


Domestic tax considerations
How is it used in the Enterprise?



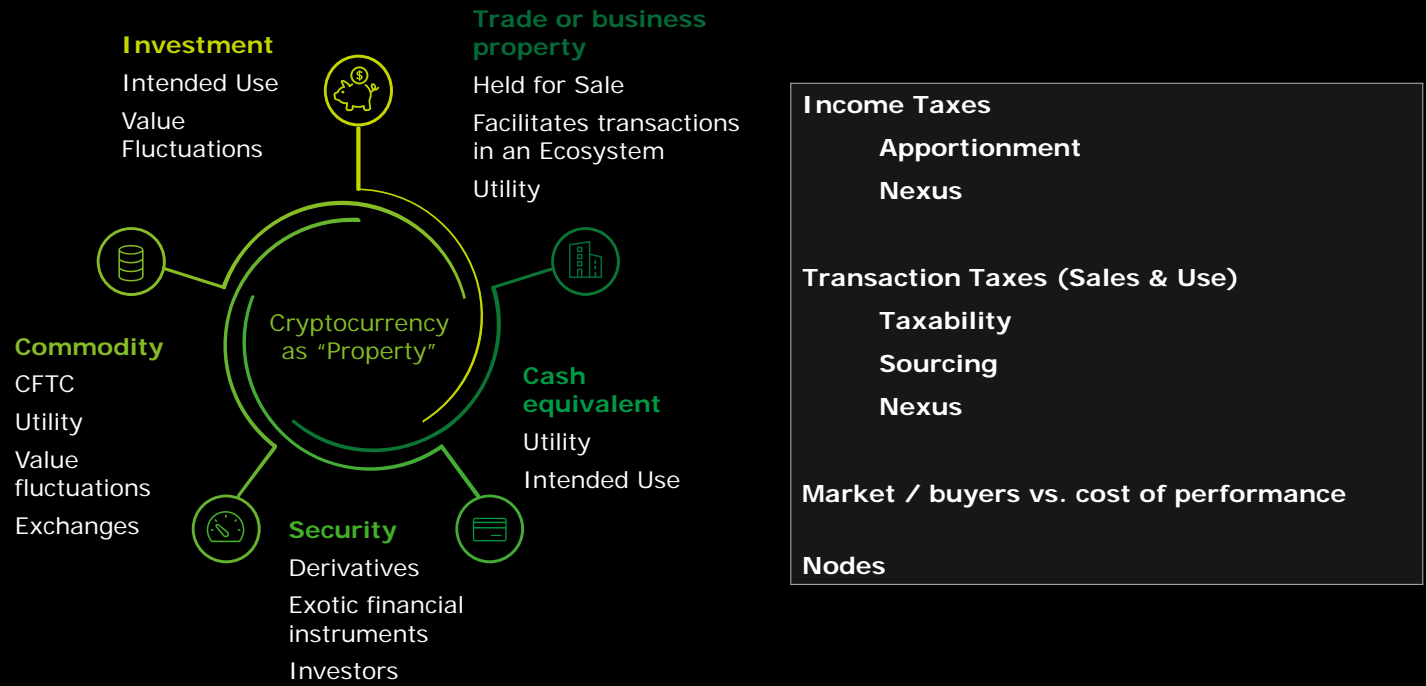
Revenue recognition	<ul style="list-style-type: none"> • Barter transactions • Service contract • Market makers • Mark to market • Pre-sales
Compensation	<ul style="list-style-type: none"> • IRC Section 83 • Options and salaries payable in cryptocurrency • Withholding and reporting requirements • Lockups, vesting, etc. • Valuation
Other	<ul style="list-style-type: none"> • Character • Tax accounting methods (basis tracking) • Hedging • Contributions to / Distributions from partnership or corporation • Loans

International tax considerations
How is it used in the Enterprise?



<p>VAT considerations</p> <p>IP migration</p> <p>ECI</p> <p>Subpart F</p> <p>GILTI</p> <p>FDII</p> <p>Cross-border considerations – Withholding</p> <p>Permanent Establishment</p> <p>FBAR and other reporting</p>

Multistate tax considerations How is it used in the Enterprise?



Tax Considerations of Blockchain (non-crypto transactions)



Blockchain-enabled transactions

- Revenue sourcing – National, State, Local / Provincial level
- Substance – smart contract, servers, decisions, actions
- Permanent establishment / ECI
- Applicability of withholding tax
- Applicability of transaction taxes (GST, VAT, JCT, Sales Tax, etc.)

Tax considerations of a Token Launch



- Structuring the launch – token creation and sale
- Trade or business property – utility considerations, transaction flows, etc.
- Subpart F (non-US)
- Subsequent conversions of Cryptocurrency earned on the crowdsale
- Permanent establishment / ECI
- Applicability of withholding tax
- Transaction taxes (GST, VAT, JCT, Sales Tax, etc.)
- Compensation considerations
- Post launch operational considerations

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Q&A



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