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Annual Conference

Scottsdale, AZ

**Tax Implications of
Cryptocurrency, NFTs, and Other
Digital Assets**

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11:15 AM - 12:15 PM



Moderator



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Prominent Guidance from the IRS

- Notice 2014-21
 - Concludes that convertible virtual currency is treated as property for federal income tax purposes, not as currency
 - Term "virtual currency" later supplemented by IRS FAQs to include digital currency, cryptocurrency, and other assets
- Revenue Ruling 2019-24
 - Addresses tax consequences of distributions from hard forks
- FAQs
 - Expands on limited examples in Notice 2014-21
 - Capital gain and loss
 - Property exchanges
 - Compensation

Closing the Reporting Gap

- IRS Voluntary Compliance Initiative
- Expansion of Information Reporting
 - IRC Section 6045
 - A “digital asset” is “any digital representation of value which is recorded on a cryptographically secured distributed ledger or any similar technology as specified by the Secretary”
 - The term “broker” now includes “any person who (for consideration) is responsible for regularly providing any service effectuating transfers of digital assets on behalf of another person”
 - IRC Section 6050I
 - Section 6050I requires taxpayers engaged in a trade or business to report cash payments in excess of \$10,000.
 - Section 6050I(d)(3) – digital assets are treated like cash

Financial Reporting

- AICPA Practice Aid – Accounting for and Auditing of Digital Assets
 - <https://www.aicpa.org/resources/download/accounting-for-and-auditing-of-digital-assets-practice-aid-pdf>
- Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 121
 - <https://www.sec.gov/oca/staff-accounting-bulletin-121>
- FASB Project - Accounting for and Disclosure of Crypto Assets
 - <https://www.fasb.org/Page/ProjectPage?metadata=fasb-Accounting-for-and-Disclosure-of-Crypto-Assets>

Example 1a

Company is a retailer that sells goods. Company accepts cryptocurrency as payment for goods and uses an intermediary to process the cryptocurrency and convert it to cash. Company also allows its employees to elect to receive a portion of their compensation payable in cryptocurrency, using the same intermediary to make these payments. Consider:

- Tax and non-tax implications to Company upon receipt/conversion of cryptocurrency and payment to employees
- Obligations placed on Company as a result of receipt or payment of cryptocurrency
- Tax implications to customers and employees
- Legislative proposals

Example 1b

Same facts as Example 1a, except that Company holds the cryptocurrency it receives as an investment instead of converting it to cash. For example, Company swaps some of its cryptocurrency for other cryptocurrency, invests cryptocurrency to generate yield on various DeFi platforms, and stakes cryptocurrency on certain platforms. Company acquires some governance tokens in a DAO the primary purpose of which is to invest its treasury in various early-stage dApps. Consider:

- Tax and non-tax implications to Company of these investment activities
- Legislative proposals

Example 2

Company designs, manufactures, and sells sportswear. Company has decided to offer its sportswear in the metaverse. Company teams up with TechCo, which specializes in designing and creating NFTs. Company offers customers a chance to design their own sportswear for use in the metaverse, and TechCo creates the NFT. The NFTs also enable customers to obtain a physical version of their creation and to take advantage of other exclusive offers. A secondary market develops for the NFTs. Consider:

- Tax and non-tax implications to Company upon sale of NFTs
- Tax implications to customers
- Legislative proposals

Key Terms:

- NFT (Non-fungible Token) - *Type of digital asset with a unique digital identifier.*
- DApps (Decentralized Applications) - *Programs hosted on a public decentralized blockchain (such as Ethereum)*
- DeFi (Decentralized Finance) - *Peer-to-peer financial services on public blockchains*
- DAO (Decentralized Autonomous Organization) - *A community-led entity with no central authority*
- Staking - *Protocol-defined token collateralization earning yields and/or providing privileges, either at the base layer (in proof-of-stake consensus models) or at the smart contract layer*
- Fork - *A change to blockchain network's software. The changes may be backwards compatible (Soft Fork), or the changes may not be backwards compatible (Hard Fork)*

Questions?

Thank you to our speakers!

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