

GAO's Virtual Currencies Report Implications

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Moderator



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Director of Strategic Development and Emerging Markets, Vertex, Inc.

David Deputy is Director of Strategic Development and Emerging Markets for Vertex, Inc. a leading provider of tax technologies. In this role he engages governments and corporations on use of advanced technologies such as artificial intelligence, big data and blockchain to reduce tax compliance cost and fraud. He is a member of the Accounting Blockchain Coalition where he serves as its President.

Speakers



Dmitri Alexeev

Tax Partner, BPM LLP

Dmitri is a Partner in BPM's Corporate Tax Practice and co-leads the blockchain and digital assets group. He has over 21 years of public accounting experience with regional and national accounting firms.



Roger Brown

Head of Tax & Regulatory Affairs, Lukka

Roger Brown is Head of Tax & Regulatory Affairs for Lukka, Inc, a tax & accounting software firm for digital assets. He tackles tax issues in the digital asset ecosystem with more than 27 years of international tax and financial products experience in senior technical roles with the IRS national office, "Big 4" accounting firms, and major law firms.



Shehan Chandrasekera

CPA, Head of Strategy - Tax, CoinTracker

Shehan is the Head of Tax Strategy at CoinTracker. He is one of the handful of CPAs in the country who is recognized as a real-world operator and a conceptual subject matter expert on cryptocurrency taxation.

U.S. Government Accountability Office (“GAO”)

Report to the Ranking Member Committee on Ways and Means,
House of Representatives (the “Report”)

February 2020

**VIRTUAL CURRENCIES: Additional Information Reporting and
Clarified Guidance Could Improve Tax Compliance**

Agenda

- Introduction
- GAO Report highlights (GAO-20-188)
 - Reasons for the Study
 - Review areas
 - Findings
 - Recommendations
 - IRS and FinCEN response
- The IRS Crypto Summit
- Panel Discussion: GAO Report and IRS Crypto Summit
- Digital Assets and Blockchain News
- Q&A Session
- Membership Information

Reasons for the Study

- Virtual Currency
 - grown in popularity in recent years; and,
 - gained wider adoption by the public;
- Individuals and business are using virtual currency as:
 - investments; and,
 - as payments for goods and services.
- The GAO was asked to review the IRS efforts to ensure tax reporting and compliance.
- This is the second Virtual Currency Report. The original Report (GAO-14-496) was issued in May of 2014. The Report addressed the emerging regulatory, law enforcement, and consumer protection challenges.

Review Areas

- GAO Reviewed:
 - virtual currency tax compliance environment;
 - the Internal Revenue Service (the “IRS”) efforts to address virtual currency tax compliance risks;
 - the extent to which IRS’s virtual currency guidance meets taxpayer needs; and,
 - whether additional information reporting on virtual currency income could assist IRS in ensuring compliance.

Findings

- Taxpayers are required to report and pay taxes on income from virtual currency use;
- The IRS has limited data on tax compliance for virtual currencies;
- Tax Forms and information returns filed by third parties are missing virtual currency transactions;
- IRS has taken steps to address virtual compliance risks;
- IRS issued virtual currency guidance that:
 - Part of the guidance is NOT authoritative (not legally binding) and is subject to change; and,
 - That these facts were not made clear to the taxpayers.

Findings (continued)

- Information reporting by third parties, such as financial institutions, on virtual currency is limited;
- It is difficult for taxpayers to comply and for IRS to address tax compliance risks;
- Many virtual currency transactions likely go unreported to IRS on information returns;
- Taking steps to increase reporting could help IRS provide taxpayers useful information for completing tax returns and give IRS an additional tool to address noncompliance;
- Additional guidance is needed for reporting virtual currency held as a foreign asset.

Recommendations to IRS and FinCEN

- GAO provided the following general recommendations including four (4) specific executive action recommendations:
 - To the IRS:
 - clarify that part of the 2019 guidance is not authoritative;
 - take steps to increase information reporting (third party reporting); and,
 - clarify the application of reporting requirements under FATCA.
 - To Financial Crimes Renforcement Network (“FinCEN”) and the IRS:
 - address how foreign asset reporting laws, including FBAR, apply to virtual currency.

IRS and FinCEN Response

- The IRS agreed with the recommendation on information reporting;
- The IRS disagreed with two recommendations stating that:
 - a disclaimer statement is unnecessary; and,
 - that it is premature to address virtual currency foreign reporting.
- FinCEN agreed with GAO's recommendation
- GAO believes a disclaimer would increase transparency and that IRS can clarify foreign reporting without waiting for future developments in the industry.

Question 1

- The GAO February Report was followed by IRS Crypto Summit in early March. What are some key takeaways from the IRS Virtual Currency Summit?
 - Overview of the event and its participants
 - “Property” classification for crypto
 - Concerns over central data repository system
 - Tax calculators
 - Schedule 1 crypto tax question

Question 2

- What other discussion have taken place during the IRS Crypto Summit?
 - Anonymity of crypto transactions
 - Taxation of staking rewards
 - Valuation for tax purposes
 - Tax lot ID method and practical issues
 - AICPA position and comments letter

Question 3

- What are the key takeaways from the GAO Report on virtual currency?
 - 2019 Crypto FAQs May Not Be Binding
 - Information Reporting Needs More Clarity
 - Crypto Foreign Reporting Requirements Are Unclear
 - IRS guidance on foreign reporting to be delayed
 - Expect guidance to come from FinCEN soon?

Question 4

- We are experiencing a significant health crisis (COVID-19) with significant economic implications. What's the impact to the individuals with crypto assets with respect to 2019 tax year and how will the government relief efforts are helping the digital assets and blockchain space?
 - Presidential proclamation on declaration a national emergency (Stafford Act):
 - July 15th - deadline to file and pay - tax payments deferral
 - State conformity with the federal deadline
 - Informational returns
 - Extended tax season

Question 5

- Given that the IRS has disagreed with GAO conclusion on authoritative interpretation and foreign reporting issues, is that reasonable to assume that the new IRS guidance is coming sometime this year?

Question 6

- The GAO Report put significant emphasis on information reporting, including Form 1099-K and 1099-B (Sections 6045 and 6041). Do you believe that the IRS will accelerate the 1099-B and 1099-K enforcement efforts with respect to exchanges and third party settlement organizations in 2020 for 2021 reporting season?

Question 7

- The GAO interviewed officials from the Financial Crimes Enforcement Network (FinCEN), Commodity Futures Trading Commission (CFTC), and Securities and Exchange Commission (SEC) about coordination efforts. Do you think it is time for a joint U.S. government virtual currency task force that could coordinate and facilitate compliance and regulatory reporting with the Internal Revenue Service?

Question 8

- What actions do you want webinar participants to take after listening to the presentation?

Digital Assets and Blockchain News

- Panelists to discuss recent news and events impacting the digital assets and blockchain space

Audience Q&A

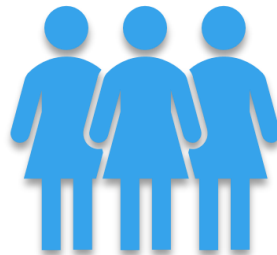
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Questions?

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