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FOCUS ON WHAT COUNTS

INTRO TO
CRYPTOCURRENCY
& BLOCKCHAIN
FOR LAWYERS



[TEAM WORK]

Understanding Cryptocurrency & Blockchain

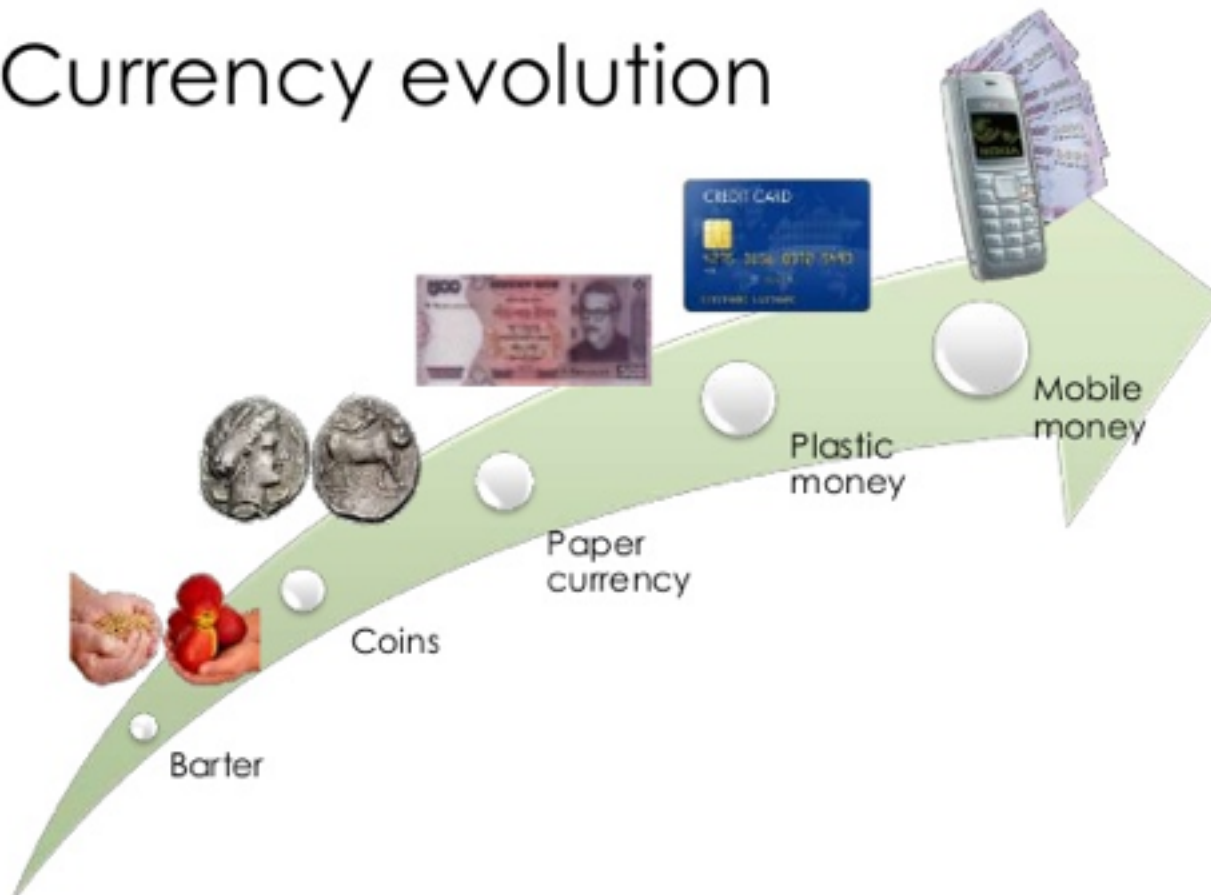
- Presented by:
 - Mark DiMichael, CPA/ABV/CFF, CFE

Terminology Cheat Sheet

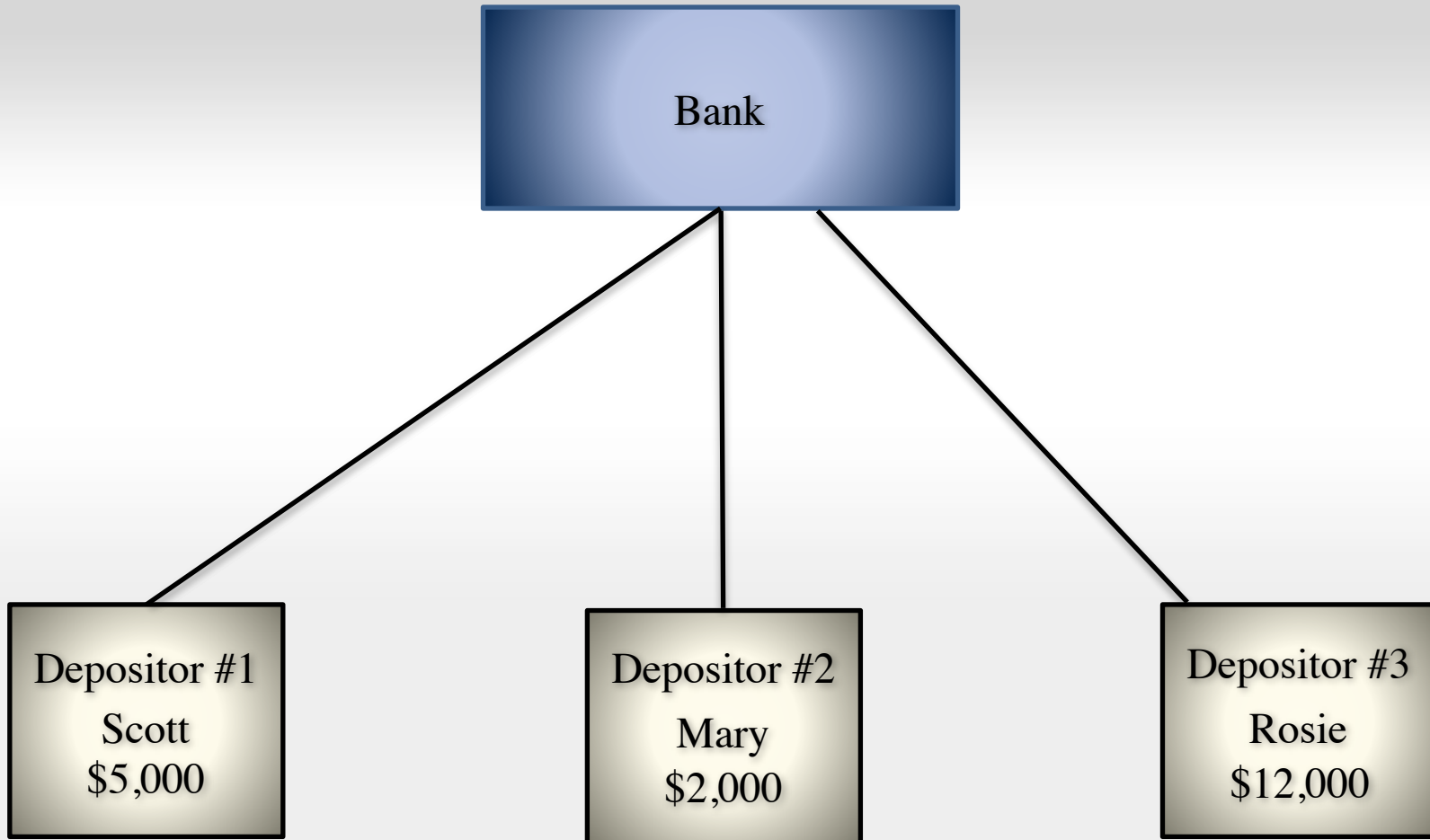
- **Cryptocurrency** - a digital currency in which encryption techniques are used to regulate the generation of units of currency and verify the transfer of funds.
- **Bitcoin** – The world’s first cryptocurrency started in 2009. Now there are over 1,600.
- **The Blockchain** – A publicly viewable, permanent, immutable ledger of every bitcoin transaction that has occurred since 2009. Think of one long excel spreadsheet.
- **Decentralized Ledger** – the Blockchain is a “decentralized ledger” in that no single entity maintains the blockchain. Copies of it are stored on thousands of computers, worldwide.
- **Bitcoin Address** – an account number for storing Bitcoin, which has an account balance and transaction history, publicly viewable on the Blockchain. Every address has an associated “Private Key”
- **Private Key** - the “secret password” to spend Bitcoin in a particular Bitcoin Address.
- **“Wallet”** - a bitcoin owner’s method for keeping track of their Bitcoin Addresses & Private Keys
- **Miners** – the individuals and computers that maintain and update the blockchain with new transactions, verifying only legitimate transactions are recorded.



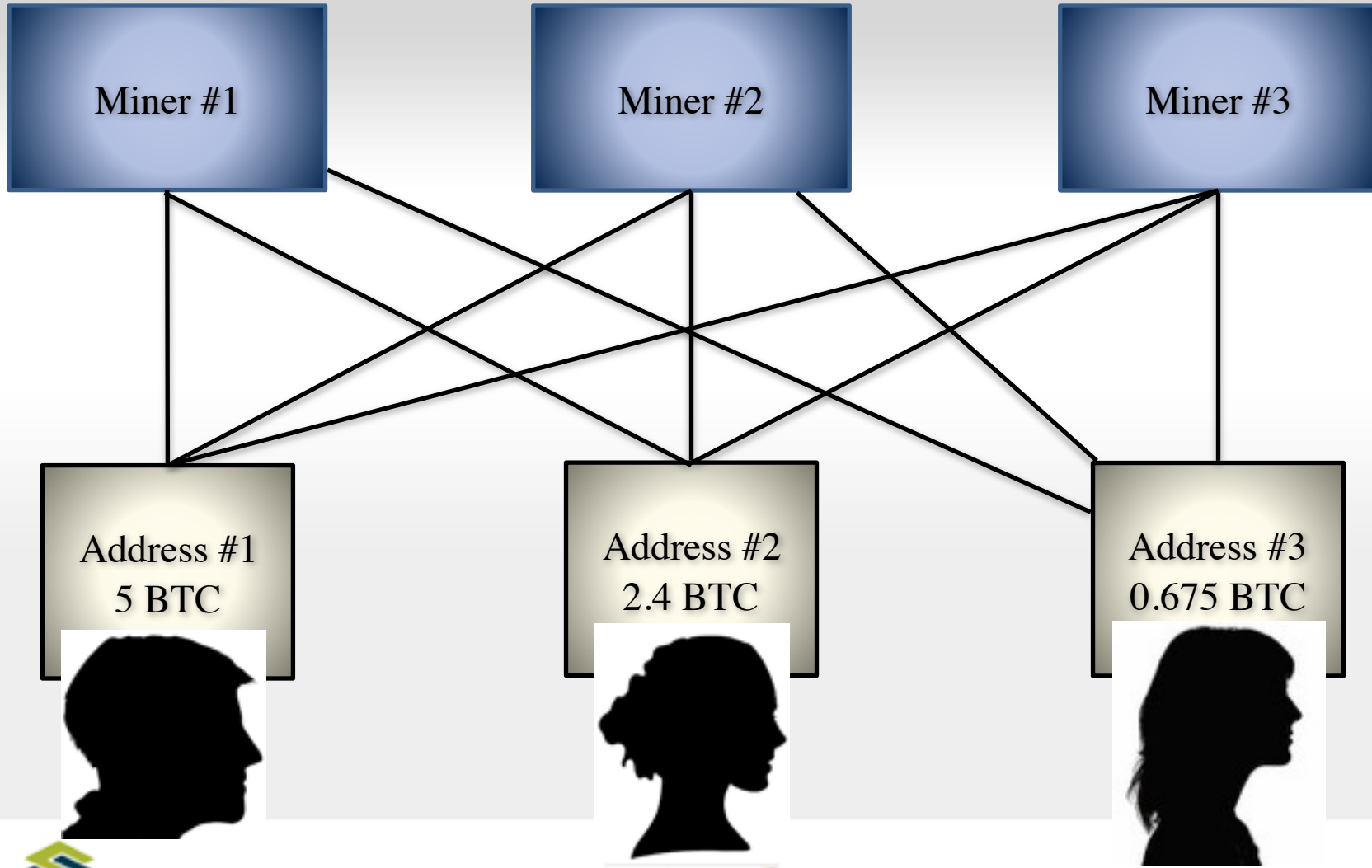
Currency evolution



Centralized Ledger



De-Centralized Ledger



Miners

- Miners provide computing power to verify transactions
- Anyone with an internet connection and the hardware/software
- The “BlockChain”
- Miners are compensated for their efforts with newly created bitcoins and with transaction fees (paid in bitcoin)
- Majority Rule

Real Life Buying & Selling Cryptocurrency on an Exchange

- Buying from an Exchange
- Selling on an Exchange
- Spending/Transferring
- Receiving

“Wallets”

- A Bitcoin wallet is simply a storage place for your private keys. Several different types:
- Exchanges
- Software wallets and Online Internet Wallets
- Hardware Wallets (Cold Storage)
- Paper Wallet (Cold Storage)

Acceptance – Narrow or Broad?

- Usage as a currency
- Usage as an investment
- Usage in illicit activity
- State issued fiat cryptocurrency? (centralized)

Regulation

- The laws regulating cryptocurrency are evolving, but have not caught up to the rapid advances in technology.
 - The CFTC considers Bitcoin to be a commodity. Therefore, the CFTC regulate the Bitcoin Futures market.
 - Cryptocurrency Exchanges often have to comply with state-by-state money transmitter rules.
 - New York State Dept of Financial Services created the “BitLicense”

Cryptocurrency Tax Reporting Rules

- Tax evasion is rampant.
- IRS Revenue Bulletin 2014-21.
- Cryptocurrency is considered property by the IRS. Type of property depends on its usage.
- No new regulations issued. Cryptocurrency is to be reported the same as any other “property” under the old tax laws.
 - Gains and losses are reported on 1040 Schedule D

Other Cryptocurrencies

- Faster than Bitcoin
 - Litecoin
 - Bitcoin Cash
- “Privacy Coins”
 - Monero
 - Z-Cash
 - Verge
- Other Decentralized Platforms
 - Ether / Ethereum (Smart Contracts)
 - XRP / Ripple (Payment Processing)
- Many more

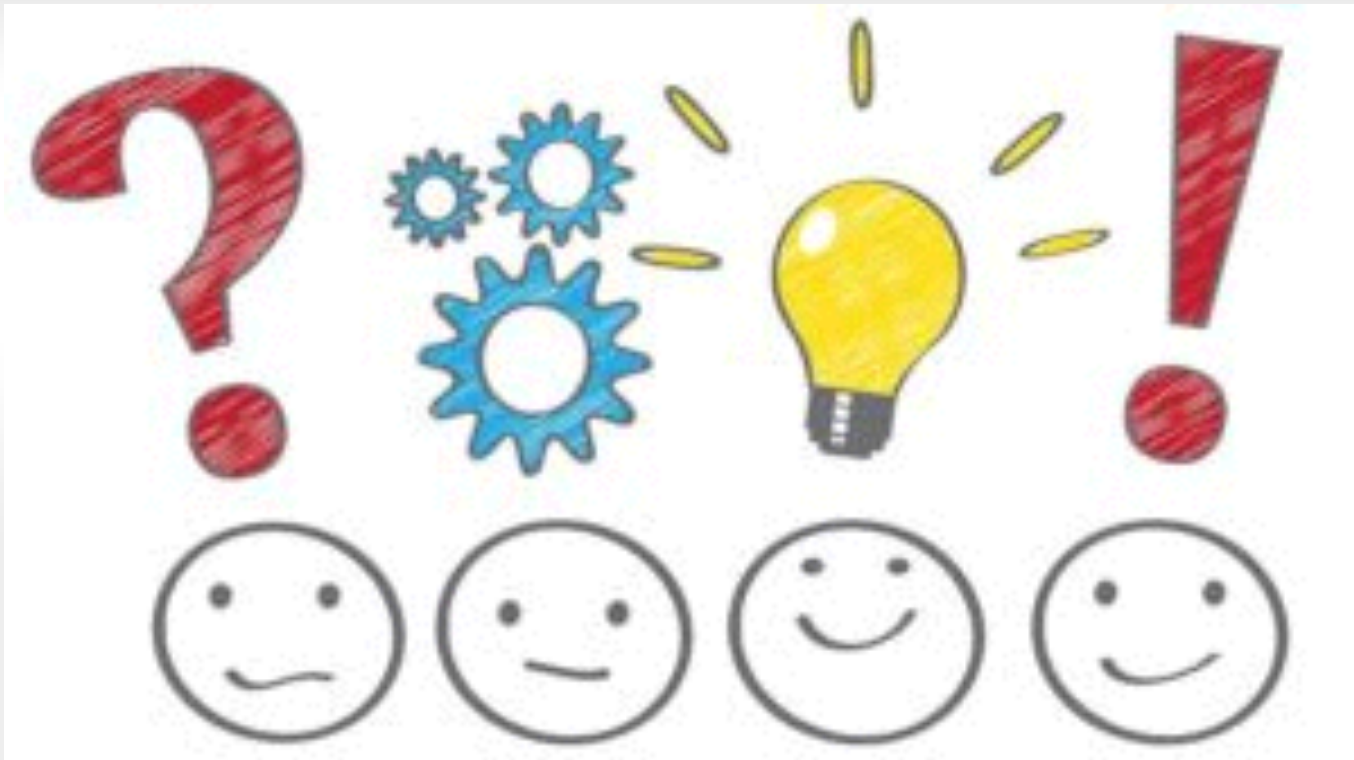
Other Blockchain Uses

- The Ethereum Foundation opened up the blockchain technology to other uses, besides currency.
 - Smart Contracts
 - Replace stock certificates and/or property deeds.
 - Banks could use it internally to record transactions with other banks to bypass the use of a clearing house.
 - Healthcare records
 - Record & maintain accounting records

Initial Coin Offerings

- An means of crowdfunding, utilizing cryptocurrency.
- Company creates “tokens”, which they sell to investors for other currencies.
- Whitepaper provided to potential investors
- Companies have utilized ICOs to raise millions in capital.

Questions



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