
Cryptocurrency

From the Fringes to the Mainstream

Presenters:

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Peter S. Goodrich, CPA

Tax Manager

Peter Goodrich is a Manager in the Tax Department of Prager Metis CPAs, a member of Prager Metis International LLC. He has been working in the industry for over 5 years.

Peter specializes in tax planning, consulting, and structuring with domestic and international businesses, whether they are mature or startups, high net worth individuals, and trusts and estates tax planning. He assists and advises on complex business transactions.

Peter has an expertise in several industries including blockchain/cryptocurrency, entertainment, manufacturing, defense contracting, technology, hedge funds, automotive, hospitality and real estate. He believes in working with clients to ensure they are 100% paperless and ensures their cybersecurity is in place.

Peter is a noted expert in a variety of tax issues and has been published in Dealer Magazine. In his free time, he enjoys building computers, playing guitar, running chartable 5Ks, and spending time with his son.

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AREAS OF EXPERTISE

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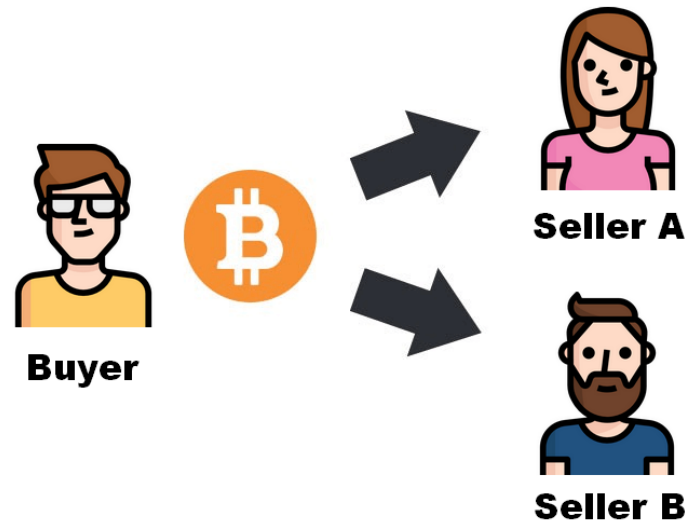
EDUCATION

BA, Accounting & Physics, Queens College, New York



The Double-Spending Problem

- When an individual buys an item using physical cash, the concern for reusing this cash in a subsequent transaction is not applicable since the cash was surrendered in the previous transaction
- Cryptocurrency are digital files which could be copied and potentially reused in multiple transactions yielding the double-spending problem



What is Blockchain?

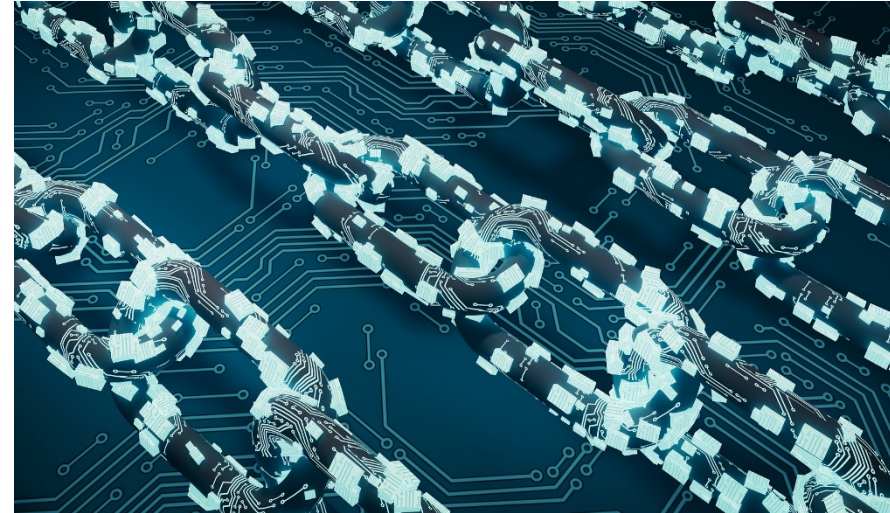
- Governance of data ledgers through decentralized democratic procedures
- Proof of work – Bitcoin (BTC)
 - Solve cryptographic algorithms
 - Power inefficient
- Proof of stake – Ether (ETH)
 - Algorithm selects block creator based on stake
- Other
- Miners execute procedures to preserve the democracy
- Consensus mechanism to add blocks to the blockchain
- Decentralized
 - No third party required, self-regulated via mining
- Public
 - Anyone can view the ledger



Complex mathematical brilliance.

What is Blockchain? (cont.)

- Each block is a train car containing information about one peer-to-peer cryptocurrency transaction
- Train cars are lined up in a sequence, or the order that the transaction occurred
- Each train car also references the transaction (train car) that immediately preceded it
- With each new validated transaction, an additional train car is added, thus creating a chain of train cars, nee “blocks”



What is Blockchain? (cont.)

- Transaction fees utilizing cryptocurrency and blockchain are significantly less than using financial institutions (i.e. banks)
- Public ledger with preserved pseudo-anonymity (public and private keys / wallets)
- The blocks store participants' identities in a secure and (pseudo) anonymous form, their cryptocurrency balances, and records of transactions between those in the network



Blockchain Applications

- Asset management – trade processing and settlement
- Insurance claims processing
- Cross-border transactions
- Supply chain
- Smart contracts
- Encryption of smart property (homes, cars, phones)
- Encryption of personal data (passports, birth, wedding, death, personal ID certification)
- Blockchain government
- Blockchain healthcare



What is Cryptocurrency?

- Cryptocurrency is a digital asset which utilizes cryptographic algorithms that support the transaction validation process or consensus on the network
- A peer-to-peer electronic cash system for cryptocurrency is a “blockchain”



Cryptocurrency (cont.)

Cryptocurrencies: 5,361 • Markets: 21,434 • Market Cap: \$207,987,511,703 • 24h Vol: \$129,050,585,844 • BTC Dominance: 63.5%

1  Bitcoin

2  Ethereum

3  XRP

4  Tether

5  Bitcoin Cash

6  Bitcoin SV

7  Litecoin

8  Binance Coin

9  EOS

10  Tezos

11  Chainlink

12  UNUS SED LEO

13  Monero

14  Stellar

15  Cardano


16  TRON


17  Huobi Token

18  Dash

19  Crypto.com Coin

20  USD Coin

21  Ethereum Classic

22  HedgeTrade

23  Neo

24  Cosmos

25  IOTA

26  Zcash

27  NEM


28  Maker

29  OKB

30  Ontology

31  FTX Token


32  Dogecoin

33  Paxos Standard

34  Basic Attention Token

35  VeChain


36  Binance USD

37  Bitcoin Gold

38  Qtum

39  Decred

40  TrueUSD

41  Synthetix Network

42  Algorand

43  Hedera Hashgraph

44  ICON

45  Lisk

46  0x

47  Augur

48  ZB Token

49  Waves

50  DigiByte

51  Ravencoin

52  Bitcoin Diamond

53  Kyber Network

54  Multi-collateral Dai

55  Enjin Coin

56  OmiseGO

57  MCO

58  MonaCoin

59  Nano

60  KuCoin Shares

Cryptocurrency and the IRS

- Cryptocurrency is more like Monopoly money, so the IRS sees it as an outlier
- People start using “Monopoly money” to buy real-life goods and services and trading these digital assets
- The value of cryptocurrency becomes pegged to US dollar (fiat) and fluctuates in value based on market forces
- IRS starts to see cryptocurrency as property
- Cryptocurrency is accompanied by tax implications based on the type of transaction (fiat and cryptocurrency)
 - Buy
 - Sell
 - Exchange

Cryptocurrency's Popularity

- Cryptocurrency definitely gotten the IRS's attention
- Bitcoin's current global maximum price was \$19,891 back on December 16, 2017
- Bitcoin currently trades at approximately \$7,150 as of April 18, 2020
- Bitcoin is the best-known name in cryptocurrency
- Today, there are an estimated 5,361 cryptocurrencies in existence with no slowdown of new entries predicted.
- Estimated 21,400 markets to trade crypto

New IRS regulations, Why & What to Do

- Tax return question
- “At any time during 2019, did you receive, sell, send, exchange or otherwise acquire any financial interest in any virtual currency?”
- IRS sent crypto letters: we think you may have omitted on past forms income resulting from virtual currency transactions
- I received a 1099-K from Coinbase, gemini, kraken or Coinbase pro [exchanges]
 - Minimum trade volume or magnitude reached

What We Can Do to Help

- Consult with the investors and traders to prepare cryptocurrency tax disclosures and calculate the tax liability
- Tax planning surrounding cryptocurrency transactions
 - Cost basis determination
 - IRS Q&A
 - Capital gains
- Conservative approach with foreign compliance under the Financial Crimes Enforcement Network (FinCEN)
 - FBAR / Form 8938
- Consult with miners to determine tax implications and planning surrounding the business

Bottom Line & Prediction

- During these trying times, alternative digital solutions and investments are being sought (inflation protection)
- Your asset portfolio will consist of cryptocurrencies
- There will be public and private cryptocurrency sectors
 - Governments will reinvent their currencies in digital form
 - You will be able to pay your taxes in cryptocurrencies
- You will be able to shop online with cryptocurrency
- Credit card spending rewards will be cryptocurrency (appreciable and incentive to drive economic activity) along with payment remittances
- Tokenization – any asset can be converted a set of infinitely many fractional investors
 - Complex asset portfolios
- All businesses will use blockchain in some capacity
- Globalization will be maximized since anyone can transact with everyone instantaneously

About Prager Metis

Prager Metis is a Top 10 International Advisory firm and Top 50 US Accounting firm, with over 100 partners and principals, more than 500 team members, and eighteen offices worldwide including New York, New Jersey, Washington, D.C., Miami, Los Angeles and London. Clients come to Prager Metis for the expert advice that protects and grows the value of their world—whether that world is local or extends across international markets. Prager Metis helps make Your World. Worth More

Our team has the expertise to tackle complex challenges that companies face with cryptocurrency and the underlying technology, as well as the compliance requirements with these new and evolving markets.

Services Include:

- Blockchain Advisory Practice
- Management Consulting
- Global Corporate Structuring and Token Tax
- Token Economics and Design
- Token Sale Advisory
- Branding and Marketing Strategy
- Attestation Services

MSF

Meister Seelig & Fein

Review of Cryptocurrency IP Assets

Seth H. Ostrow

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Your Presenter



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Seth Ostrow provides counsel to clients with all aspects of their patent needs, including prosecution. Litigation and strategic counseling. Mr. Ostrow stands apart in his creative approach to helping clients, whether for maximizing existing assets, identifying new opportunities or managing risk. Mr. Ostrow's patent practice focuses on software, telecommunications, and networks, including web technologies, online advertising, interactive television, analytics, and financial products and services.

IP Assets of interest – Patents and Trademarks

- Patents provide exclusive rights to useful inventions
 - Quid pro quo for rights is disclosure of details on how to make and use invention
 - Patents are assigned to companies that own the rights
 - Patents often filed before inventions come to market
- Trademarks provide exclusive rights to words and slogans used to identify source of goods or services in commerce
 - Registered trademarks must identify goods or services covered
 - Trademarks can be filed based on minimal usage or on intent to use basis
 - Trademarks are owned by companies using the marks

IP Assets - Search Methodologies and Limitations

- Patents and Trademarks searchable in US Patent and Trademark Office website (www.uspto.gov) or private databases such as Google patents (<https://patents.google.com/>) and others (e.g., www.freepatentsonline.com)
- Searching was based on keywords
 - Some inaccuracies based on differences and changes in terminology and usage
 - Need to select fields most likely to give results showing primary intent – searched for Patents in Abstract and for Trademarks in Goods/Services
 - Keywords used were “cryptocurrency” and/or “blockchain”
- Limited analysis of searches to issued patents and live trademark applications
- Patent applications not published until 18 months from filing date – creates 18 month blind spot

Cryptocurrency/Blockchain Patents - Search Results

- Patents searches resulted in 286 issued patents and about 2,300 published patent applications
- Issue dates range from 2016 to present
- A sampling of large entity owners of issued patents include Accenture (20), Alibaba (11), Amazon (1), Amex (2), Bank of America (7), Capital One (12), Cisco (8), Intel (4), IBM (58), Mastercard (5), Microsoft (4), Salesforce (2), Square (1), Wells Fargo (4)
- Many issued patents are owned by smaller, niche companies (e.g. Blockchain ASIC, Coinbase, nChain Holdings), universities, and individuals

Cryptocurrency/Blockchain Patents – Subject Matter Breakdown

Loosely divided issued patents into the following primary subject matter categories:

- Authentication - authorizing or verifying users (35)
- Blockchain process – technology supporting blockchain functionality (50)
- Cryptocurrency - related to use or creation of cryptocurrency (11)
- Mining - mining of cryptocurrency (6)
- Security/encryption/cybersecurity – data security, DRM, and encryption (32)
- Transactions - recording actions onto a blockchain; smart contracts (134)

Cryptocurrency/Blockchain Patents – Samples

Some sample patent titles:

- Personal Ledger Blockchain
- Bitcoin Transaction Using Text Message
- Cryptocurrency Payment Network
- Cryptologic Self-Executing Blockchain Export Commitment
- Flexible Payment Services for Travel and Credit Cards
- Incentive-based Crowd voting Using a Blockchain
- Blockchain-based Anonymized Cryptologic Voting
- Blockchain Validation of User Identity and Authority
- Mitigating Blockchain Attack

Cryptocurrency/Blockchain Trademarks - Search Results

- Trademark searches resulted in 1,143 live trademark applications or registrations using the words cryptocurrency and blockchain in the goods and services
- Applicants represent very diverse group of companies
- Goods and services include technology and software as well as a variety of services such as business consulting, marketing, banking, etc.
- Trademarks often include variation of recognizable word elements e.g. coin, crypto, chain, pay
- Sample trademarks include:
 - *Mark Blockchain*
 - *Grainchain*
 - *Blocktistics*
 - *Get Coin*
 - *Crypto Farm*

Some Takeaways – CC/BC Becoming Mainstream

- Rapid growth in amount of IP filed reflects homesteading and stake claiming in industry and widespread speculation on direction and expansion of industry
- Descriptions in patents and trademark reflect rapid maturity of technology and marketplace and speculation that it will be mainstream and used in many different applications including ecommerce, brick & mortar transactions, user ID and voting
- Ownership of patents shows some companies investing heavily in cryptocurrency and blockchain technologies and others sitting on the sidelines
- A lot of IP still owned and being filed by startups and individuals and suggests future consolidation of industry and IP as well as present buying opportunity

MSF Profile – IP & Beyond

- MSF is a full-service firm of 80+ attorneys based in NYC
- IP Group handles all IP including prosecution, litigation and transactions
- All major tech sectors with the exception of pharmaceuticals
- Focus on practical commercial application and monetization of IP
- Advantages of cross-disciplinary approach over IP boutique law firm model

Thank You



Crypto-ssary of Terms

- Altcoin – refers to cryptocurrencies that are not Bitcoin
- Blockchain – Ledgers secured by cryptography that are basically public databases accessible by everyone, but that can only be updated by owners
- Bollinger Band – A margin surrounding a cryptocurrency's price that can help indicate whether a coin is being overbought or oversold
- Cold Storage – When a cryptocurrency is moved “offline” to protect it from hacking
- Exchange – Media or platforms where cryptocurrencies are bought or sold
- Fiat Money – Currency, such as the US dollar, that is issued by a government

Crypto-ssary of Terms, cont.

- Fork – When a blockchain splits into two separate chains.
- Hardware (cold) Wallet – A computer that securely stores cryptocurrency
- ICO – Stands for Initial Coin Offering that resembles an IPO in the stock market
- Market Cap – Consists of the total value held in a cryptocurrency calculated by multiplying the total number of coins by the current price of one unit
- Mining – A process requiring immense computer processing power that attempts to “solve” the next block
- Mining Rig – Usually consists of multiple high-end graphic processors specially designed to process proof-of-work blockchains

Crypto-ssary of Terms, cont.

- Node – Computers that possess copies of blockchains and work to maintain them
- Pump & Dump – When an altcoin gets recurring attention prompting sudden price increases often followed by deep decreases
- Software (hot) Wallet – When storage of a cryptocurrency only exists as software files
- Stable Coin – When a cryptocurrency has very low volatility
- Whale – This is a person who owns outsized amounts of cryptocurrency