

6 May 2021 - Alex and Declan - Bitcoin

📅 Thu, 5/6 3:31PM ⌚ 32:53

SUMMARY KEYWORDS

bitcoin, crypto, buy, people, pay, called, gain, cryptocurrency, business, capital gain, currency, transaction, sell, works, accept, capital gains taxes, foreign currency, wallet, tax, payment

SPEAKERS

Declan Wilson, Alex Hubenthal

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- D** Declan Wilson 00:00
Well, Alex, I think we've finally arrived to the one topic that you've been chomping at the bit to discuss.
- A** Alex Hubenthal 00:09
I think that's an understatement To be honest,
- D** Declan Wilson 00:10
yes, you've hinted at it quite a few times. And
- A** Alex Hubenthal 00:13
as like when we do crypto, I just ruined what we're talking about today.
- D** Declan Wilson 00:19
In various messages, you've definitely hinted that you would love to discuss crypto and specifically Bitcoin. And I've always been a bit hesitant because I, I don't know as much about it. I mean, I know about Bitcoin. I know how it works. I've played around with it before. But in terms of like a big, big, I mean, this is a business finance podcast. So I was

trying to think like, how did how do we work that into into discussion? And I think they came upon something that I think everyone can kind of have, like a good takeaway in that there's different camps of people, right? So we have the people who know about Bitcoin, who understand it, who you know, they know how to invest in it. They know, they're the Bitcoin savvy, folks. Then we have another camp, which I think I'm probably in it, I'm sure a lot of other, you know, digital entrepreneurs, consultants, whatnot, who are like, you know what, it sounds cool. Sounds interesting. I just don't have time to learn about it. So I'm just not going to bother with it. However, we're probably in the near future, or maybe even soon. I think you've even encountered this, where maybe a client or customer comes to you and says, Hey, thank you for your services. Can I pay you in Bitcoin? And I think at that moment, it doesn't matter if you're like, Oh, I don't I don't want to bother with it. You should be as a business owner, you should probably be have an idea of what to do in that situation, whether to accept Bitcoin as payment or not. And what we're gonna focus on today we're going to try to keep it on the rails is what happens Yeah, I'm

A Alex Hubenthal 02:12
gonna be here to hold you're gonna hold me to it. Yes. You're not gonna run

D Declan Wilson 02:16
away. I want to know what happens if you say yes. And then we're gonna do is we won't make this a I think we'll give pros and cons of accepting Bitcoin it This isn't this isn't to persuade anyone to but what I my goal is that after listening to this, people have a good idea of whether they want to say yes or no. If a client asks, Can I pay you in Bitcoin? So let's start First, let's serve it and also this is not a primer into bitcoin, right? Like there's plenty of video there's plenty of explanation out there you can

A Alex Hubenthal 02:56
there's several people we can link out to Yeah, in other places as well. Yeah, go on the basics of cryptocurrency and how it all works.

D Declan Wilson 03:03
Yes, visit the website, simple fiscal calm, we'll have a write up. For the show. We'll list out various resources to learn more. However, let's start with something that I learned recently is that we like to use the term cryptocurrency. However, in the eyes of the IRS, Bitcoin is not a currency. Can you claim that? Well,

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Alex Hubenthal 03:35

currently, in a very overarching broad term, yes, you correct that statement. Specifically from a tax standpoint, so for taxes the way that the IRS looks at at a currency or cryptocurrency or crypto token, crypto coin, something, however you call it, the IRS looks at it as a asset. And those assets change value, it's the same kind of way of as if you go to the stock market and you buy five shares of a certain company, let's just say Apple stuff, promo for Apple or anything, but you buy five shares of Apple stock at \$10 and then you sell it at \$15. So, your capital gain on that is five \$5 per share times five shares is \$25 right. So, that from a tax basis is the exact same way of how cryptocurrencies are being treated with shares in the stock market and other currencies even too. So, like, if you buy British Pound sterling or if you buy Canadian dollars or you buy mexican pesos, and you have a gain or a loss on that transaction, that is also kind of the same thing. So and that needs to be reported as such from a tax basis.

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Declan Wilson 04:54

So the one example I saw online was Tesla, for example, is Accepting Bitcoin as payment to buy Tesla's and the law

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Alex Hubenthal 05:05

is the original Oh, gee, yeah, he's awesome.

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Declan Wilson 05:08

I love Ilan, let's say, they get the example I saw was, let's say that you have \$45,000 worth of Bitcoin and you want to buy a Tesla, you go to the store, you do the transaction, you get your Tesla. Now, from the IRS perspective, that's not what happens, what happens is, you have sold your \$45,000 worth of Bitcoin for \$45,000. US dollars, then use that money to buy a Tesla. Now, let's say that you bought Bitcoin way back when a couple 100 bucks for Bitcoin, let's say. And of that \$45,000 that you have 40,000 of it is is the gains, like you said, Now you have \$40,000 of gains that you will be taxed. So it's not like you use Bitcoin for that transaction, there's an intermediate step that the IRS sees, that says, No, you didn't pay \$45,000 of your own cash, you paid 40 40k extra of gains, which, depending on which bracket you're on, you can be looking at 1015 to 20%, maybe 3030 of capital gains taxes. Right. And that was something I did not realize, because at first kind of researching this, like if someone's if someone's like, Can I pay you in Bitcoin? In your business? You can say yes. And let's, let's travel down that road. Let's say you say yes, you want to accept Bitcoin? What needs to be done from an accounting standpoint?

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Alex Hubenthal 06:46

Yeah, let me, let me let me dive deeper, just a little bit on the personal side of the transaction. So people can kind of understand both pieces of how this whole thing works. So for example, like you said, like if somebody actually realizes a gain of 40 \$40,000, they bought it at 5000. they've realized now they're selling it at 45. But they're buying an asset or they're receiving a service, they're receiving a product or they're buying a home, like people are buying homes in crypto. Now. It's kind of wild. Where that actual gain needs to be reported, and you have to pay capital gains taxes on that. Now you have to, it's really important understand what what type of capital gain is it? Is it a short term gain or a long term game, because short term gains at least right now, depending on what Biden does in the United States with his tax proposals, that could change a lot. So long term gains, if you're holding an asset for more than one year, more than one calendar year. The gains realized are actually taxed at preferential tax rates. So like 10 15%, something like that. But then, but if you're holding it for less than a year, like so you buy you bought those, like in January and Doge. Just like now, like, I'm not even kidding. Like, if you bought \$1,000 worth of Joe, Joe, of those at a penny back in January of this year of 2021. And right now it's trading at 67 cents. That's what it was yesterday. Like, you just realize a capital gain of like, and you've sold it yesterday, you realize a capital gain of \$67,000 \$66,000,

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Declan Wilson 08:17

which is crazy.

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Alex Hubenthal 08:18

Yeah, which is just insanity. So in that case, if you bought it and sold it within less than a year, or you traded it for something else, or if you even bought another currency, even when you buy other currencies, like say you hold Bitcoin, but you want to buy those or you want to buy aetherium or Litecoin, or whatever the heck it is, whenever that transaction happens, you are also realizing again, even if you're buying and swapping different currencies in your portfolio, so you got to keep keep mind of that when you're doing all these things. So keep in mind with those for preferential tax rates, now there is actually some really cool things and this could be something we could jump into deeper on. On another conversation was people have figured out that if you because tokens and coins, Bitcoin Litecoin aetherium like all all the coins and tokens of cryptocurrency are considered assets, right? So there's actually banking products and services that exist out there, where you can actually use that money as use those tokens and coins as collateral. And you can cash out of that and make a loan against it very low interest rates in most cases. And then you can use that cash to buy a house for your real estate investment. You can use it to invest in your company, you can use it for all these things. And there's no

taxable event. When that happens, because you're not selling it. You're using it as collateral for a debt obligation that you're taking out on yourself. Cool.



Declan Wilson 09:45

So cool.



Alex Hubenthal 09:47

jumping, jumping into the business side of things. You know, you kind of mentioned it briefly, but actually during the tax year we had a client come to us for the tax returns that we were doing for them and they said Can I pay you in crypto currencies? like would you accept crypto like, Yes, actually the very first time that ever happened, but of course, I said yes. Because I, you know, like I've been waiting for that day to happen for like four years, I got more or less involved in crypto back in 2017, started learning about it starting hearing about it was really interested in data worked. And you know, more or less the way that it works, is let's say you provide some service for \$500. And a customer comes, you say, Hey, I, I want pay in cryptocurrency in the amount of \$500. But the value \$500 in this crypto acid, okay, yeah, sure. So what you have to do is you still have to recognize that as a revenue, and you would record at the time of the transaction, what the exchange rate was, and then any fees associated with receiving that token or that coin into a wallet of yours, and then you can sit on it. And what's really cool about this is it also kind of plays into how foreign currency works like so let's say somebody like lives in the UK, you live the United States, and you, they pay you and British Pound sterling, and that doesn't happen very often anymore, because a lot of the payment companies will settle you and your local currency, so you don't want to mess with it. But effectively, what the way it works is you can accept that, that foreign currency simply as cryptocurrency and then you sit on it, and then whenever you buy it back into dollars, or sell it back into dollar, excuse me, whatever that transaction, or that the exchange rate at that point in time was determined that you have a gain or a loss. Now gains and losses are either are passed through through the company and affect your your your revenue directly. So like if you have a gain, like let's say you received, you know, \$500 worth of Bitcoin at, you know, \$50,000 in, you know, in two months, it's now \$55,000, you sell it back into dollars, well, now you have \$550, right. So you need to still you still have the \$500 revenue, but now you have a capital, you don't have a capital gain, excuse me, you have a gain on it's a forex, GL is what we call an account. It's like a gain loss in foreign foreign currency. And from a business perspective, the IRS still has not issued guidance on how to treat these transactions from a business perspective. But best practice dictates that you treat it as foreign currency. And then whenever you buy back into the local currency, ie dollars, then you either have a gain or loss and then you either have a forex or we call a foreign a

foreign exchange, as was for expense. And then we either report that as gain on on the revenue line item or we reported as a loss as an expense on the business. But that \$500 that whatever delta is, the difference between the \$500 is either below or above whatever that difference is, these get flushed out through the income statement, but that \$500 is already there. Because you've already recorded as revenue.

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Declan Wilson 13:05

So step number one is to make sure you're recording everything right. Yep. So if this is a one off thing, or if you deal with if you're a client based business and you're sending out dozens or so invoices and only a few are paying you in Bitcoin, it's not like you're an e-commerce, you know, selling and shipping stuff online. This seems pretty reasonable right to track this is are there tools or like, I'm thinking about the average, like me, like if I if someone came to me, do I need some kind of tool to track this type of accounting? Or is this something you call up your accountant and say, Hey, this is this is happening?

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Alex Hubenthal 13:54

Well, big companies have actually silently have been accepting crypto for a long time now for five, six years. Even if you've ever heard of Newegg, like the the online computer accessories, kind of folks. They've been doing it I think since 2016. You know, you've got your what really was really interesting on what really took off the bull market that you're seeing right now in the crypto space was the mass starting the mass adoption, right? So you're starting to see companies come out PayPal providing support square and jack Dorsey got in on it. And then you know, you saw Tesla bought a lot of Bitcoin and actually people were talking about how or they were trying to like, pin him I guess, if you will, even where like he bought all up and then it just went up and then they've made more money in the one transaction on Bitcoin than they have in like 10 years of selling Tesla's in a sense. But then people are like, Oh, well, you're doing price manipulation on Bitcoin and then like they're trying to get the, you know, people either love or hate Ilan. And, you know, his claim was no, I'm just trying to prove the the liquidity model Because people are concerned about the liquidity of buying and selling the currency. And that's his way of keeping the SEC out of his hair. And he's a really smart guy. And you certainly see as mass adoption. So you're not really seeing a lot of automation tools yet, for small companies. But there have been things like there's like a, there's an accounting platform that I think it flopped, but it was called blocks dlo x, if I remember correctly, that was like in 2018, I was looking into that, like this is cool. And I think it flopped. But one of the things that I've you can, you can use some kind of semi automation tools, there is one called there's two payments. So you can use one to accept payments and one to kind of record the transactions and those two payment those two platforms are called crypt folio.com. And

then also coin payments.net. So coin payments, that is like where you can actually accept payments in any literally, I think the top 500 coins or tokens that exist in the world. And you can pick and choose and set up those settings. And then you can instruct the software say hey, at the end of every day just batch run everything into a wallet. So people that for people that understand the concept of wallets. You know what I'm talking about if you don't we'll link up some some articles about how wallets work on what those are. Effectively, it's like a it's a bank account. But it's it's a bank account on your computer that only holds one type of currency at a time. So a wallet only holds only holds Bitcoin, because they need special addresses and all those things. But we're not going to go into that today. But what's really nice about cript folio comm is they allow you to capture the exchange rates and record the transaction. So like whenever you do anything with crypto, there's obviously fees associated with that. And one of the things that's most attractive about cryptocurrency is that the fees are a lot less than what you'd normally pay in a bank. You know, it's instant, you can get you can send money around the world in 30 minutes or less most cases. And that's what really is attractive about cryptocurrency. But you need from accounting perspective, you need to know Okay, what was the exchange rate that I received that am I paying fees to get the money into a wallet, which if you're transferring addresses for the wallets, you most definitely bank fee somewhere. You need to know what the fee was at the time of that, at that point, time for the exchange rate for that specific currency, all those things, and then if you ever to sell out of it, then you can also track over time, how that how that all works. Now cript folio has a free platform, they also have some paid platforms. And then coin payments.net is really nice, because it's a nice place to kind of like centralize if you're if you're doing it quite frequently, and you have clients wanting to pay you in cryptocurrencies, quite frequently, they only charge a 1% fee on the actual transaction. So 2% better than what you're paying at, you know, stripe, PayPal, or some other large credit card processor square credit card processor, and they settle those transactions for you as already done, usually right away, and then it's sent over to your wallet within, you know, that same day or that or that evening.

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Declan Wilson 18:17

And that's that is one of the reasons why I again, I didn't want to like give reasons what No, let's let's talk about pros and cons now. Right? So one of the biggest pros of accepting Bitcoin is like you said, the fees are much, much lower than, you know, if you're trying to accept a payment internationally from a client, you know, that checks in the mail, or that's just inefficient. bank fees are expensive, sometimes PayPal can't even process it or isn't available to everyone outside of the US

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Alex Hubenthal 18:49

and all the currencies.

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Declan Wilson 18:51

Yeah, it doesn't have all the currencies, Bitcoin is it 1010 to 30 minutes, it's, it's, it's there. And like you just did the math for us the the fees are much, much less now. So that's just one of the pros are a couple of pros, it kind of you can avoid a lot of those transaction fees. What gets hairy is I'm imagining if you have an e commerce business where you're dealing with many, many payments, you're probably probably a lot of payments every month, I'm sure that's probably really hard to track right so that might not be beneficial. But if you're a consultant and like you said doing a couple of invoices every month may be beneficial but then long term so I did I think I read something where there's kind of these tax strategies where like eventually if you want to convert some of your Bitcoin into cash, where you can kind of be more strategic in picking which Bitcoin to sell that way you're not realizing huge gains is yet a real thing.

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Alex Hubenthal 20:03

Well, really fast. So I do know for e commerce Coinbase the mat, they just went public about two weeks ago. Coinbase is the massive exchange platform in the United States. And they actually plug into Shopify, so they actually has something called Coinbase commerce. So they actually help you with a lot of that. But you need the plugin to make that work. Right. So, okay, like, you know, doing Coinbase commerce, and then you're only using it once a month or twice a month, right. So like, you can't be doing that. And I think that they sell you own dollars, okay, like you're gonna you can accept in the currency, but then they settle you in dollars, or something like that, I gotta go back and check on but some people can actually check in check on but as far as tax strategies from a personal sample, like, you know, the thing is, is like, from a business standpoint, it's really it's going to affect either you have a gain or a loss, right. And that's kind of where it's coming up. But if you're looking at things from a, looking at things, from an individual standpoint, yes, you can get a little bit more creative. There's actually a few things out there. Before before that, so generally speaking, you have what you use what you call a FIFO. And it's called first in first out, it's actually an inventory nomenclature that we use in accounting, that can also account you can also use it from a basis of taxes for your, for shares, right, so you usually do FIFO, that's usually how, like, the first year you buys, the first one, you sell more or less, right, it's like, it's kind of like, you know, you buy it, you buy 10, today, by 10, tomorrow, you sell 10, tomorrow, and you sell 10, on the following Monday, then the 10, that you bought today are going to sell first, that's kind of how you already kind of structure for that. So that that's already kind of in place. But there's actually some really cool things where you can avoid the capital gains taxes, on your, on your crypto assets by

you by setting up something called a qualified Opportunity Fund. And what that is, is where you set up a fund through a business entity, preferably, and you do a real estate transaction in a low income neighborhood. Let's say you're facing tech capital gains of \$500,000. And you buy a property for 250,000. The requirement is whatever the amount that you bought it for, you also have to double up that amount in, in fixed in fixtures and, you know, fixing things and doing all these things. And then when you sell it, you there are ways into the future. And I don't want to go all into specific details on it. But we could be here till Sunday now, and stay if you're listening to this, when it's already gonna, when the sun comes back up tomorrow, the you know, that is one way to do it. And there are ways to avoid the majority if not all, okay, exposure. And then what's really cool after that as you can 1031 a real estate transaction and then avoid the capital gains on those other things, but that's a different conversation. But 1031 anybody that's curious is just like kind exchange, meaning you buy real estate property appreciates, if it's \$50,000 you can when you sell it, as long as you put another property under contract within a within a specified timeframe, you can then avoid the capital gains on that sale and other ones. So it's called 1031 exchange. But then you can you can keep playing that game into perpetuity and then keep avoiding the capital gains taxes that were originally tied to your crypto but the thing is, is and something that maybe some investors most investors might not be kin to is investing in very very low income areas. So it just really just depends on on on who the who the investor is and their risk profile and strategies that

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Declan Wilson 24:10

they have. And I'm assuming you know just your normals solopreneurs might not be wanting to venture into that space you know after accepting some some bitcoins so and that's where I want to get to next is I guess you can always accept Bitcoin and then convert it to dollars the same day right and assuming that the rate is pretty much the same you're not really seeing a lot of capital gains in that regard and then let's say you're receiving an international payment

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Alex Hubenthal 24:46

you don't have to go through the wires you don't have to go through all that nonsense Yeah.

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Declan Wilson 24:50

In 30 minutes you convert it and then you got your your US dollars. Right right then in there. Yeah. Now, theoretically could And this is probably because we don't know. Like, we don't know how the IRS is going to treat this in 10, you know, 510 years? Theoretically,

could you accept the Bitcoin? And just hold on to it and hope that down the line, it eventually is classified as a currency? Which then you could use for your business?

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Alex Hubenthal 25:24

However, yeah, no, I mean, you can sit on as long as you want, like just so long that the holder of the asset is still the same. So like, if you have an LLC in place, make sure that the LLC stays like ABC corporate LLC or something like that. And then as long as it's not transferring hands from a legal perspective, you can let it sit there for 20 years if you want.

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Declan Wilson 25:45

Okay. And that's it. And that's basically it. Like you said, there's you called a taxable event. Is that no, there's

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Alex Hubenthal 25:55

no tax moment, right?

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Declan Wilson 25:57

So So as long as you're just holding it and not converting it to us dollars,

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Alex Hubenthal 26:01

it's you're not paying any taxes. Well, keep in mind that the original value that you received that was for the revenue is taxable income, right? But like, it's right, so like, there's like, kind of like two pieces happening the same time. So like, again, you receive it, you send it into it's 500 bucks, client pays 500 bucks in crypto, you record revenue on that, and you pay taxes on that revenue is specifically tied to it. But like, let's say the price of crypto goes up 10x from from where it is now. That 40 \$500 mine used to be reported unrealized, but 90% sure has to be unreliable has to be reported. Because it's a cash equivalent on the balance sheet, and it has to still be reported somewhere. You're paying taxes on it. But that 40 \$500 unrealized gain, can sit there as long as you want it to. And let that fluctuate as time moves forward. But with a lot of things that are happening right now, you're going to need a really long time horizon, meaning your time horizon is going to be near 10 510, minimum five years, preferably 1015 years, if you're wanting to hold for the medium to long term. Because with what Biden is suggesting right now, with doubling up the capital gains tax, and doing all these things, you're, it's not going to be worth it. So you're gonna have a lot of people either selling or they're going to hold on to it for a very,

very long time.

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Declan Wilson 27:28

And that's and I can see that as a downside for someone who is a solopreneur, you know, small operation where they're essentially receiving Bitcoin, which is valuable, but they can't use it right away in their in their business. So treating it they have to record it, like he said his revenue and pay taxes on it, but then it's it's essentially just sitting in that little digital wallet, and they can't really use it on their business. I mean, they can, but again, that becomes a taxable event, if there are gains. So that that can kind of be a con there. But again, I didn't want to focus this on being pros vs. Cons of accepting big offers. I know we're coming up to about a half an hour here, if people are still hanging around listening to tax implications of Bitcoin, what else should people be aware of? Am I missing something? In this whole conversation?

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Alex Hubenthal 28:28

Well, the thing that you everyone that's listening to this has to kind of realize is right now we're at a crossroads in this whole development of this cryptocurrency world. And a lot of people already saying it's too big to fail. And too big to go away at this point. And I'm leaning into that camp myself, there's a lot of people kind of trying to explain cryptocurrency and how the internet was, back in the 90s. When the internet came out the very first time right now we're 30 some odd years, around 30 years into the use of the internet, the existence of the internet kryptos about 10 years. So if you if you look back to about 2000 what was happening, Amazon became something you started seeing a lot of e commerce starting you started seeing a lot of people moving things online, you started people saying communicating back and forth via email. So yeah, but trying to try to you know, think about that and just understand because I read something that only new there are out there like adoption curves that exists like in statistics and business and I was talking about like how things get adopted over time,

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Declan Wilson 29:38

network effect, right network of people are using some more like like

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Alex Hubenthal 29:41

early adopters. And then yeah,

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Declan Wilson 29:42

yeah, just like Facebook, it became exactly popular because more people it became popular,

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Alex Hubenthal 29:47

right? And the, the sooner that you educate yourself on the basics of how the ecosystem works, not just Bitcoin, because my space and you know, other other platforms were for Facebook and then they went away like people are arguing that aetherium could outrun Bitcoin because the Ethereum network is so much more broad and much more built out, if you will, then then Bitcoin is and it provides other other things, right? So roughly 88% of the population has adopted a crypto. So don't be that person that is like the grandfather and grandmother right now that just figure out what Facebook was two years. And I'm not picking on my grandparents were like, that's who they are, they think it's the coolest thing that was a Hey, I keep in touch with my grandson and you know, whatnot, and they want to post things on your Facebook page, and everything is like,

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Declan Wilson 30:41

love you.

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Alex Hubenthal 30:43

But like, you know, it's just, it's just so don't be that person. Because, as of right now, there's roughly \$2.2 trillion worth of market capitalization in the crypto world, the total market capitalization of crypto is \$2.2 trillion, we went from 1 trillion to \$2 trillion, between January and about two weeks ago, so in the middle of April, so of course, the three half month the total market value of crypto doubled. And you're just going to keep saying that over and over, over and over again, people are gonna keep adopting to it, people are gonna keep using it, people are going to integrate into the businesses. And I promise you in the next three to five years, any business that runs online, is going to have to be in a place where they're going to have to know what crypto is how to use it, and be ready when a client asks, Can I pay you in crypto?

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Declan Wilson 31:35

So I just want to close that like, we are only just talking about Bitcoin, which is pretty much like the Model T. Right. Right. It was just the first right and it is still the biggest but there's still chance of other cryptocurrencies taking over becoming more popular and and that's

could be other conversations we can have in the near future of what to kind of like a brief rundown of what all these different cryptocurrencies are and what makes them different. How can they learn smart contracts? And yeah, what are those? Yes. So more to come. So thank you, Alex. I know this was just like, the tip of the iceberg, but at least you got got a little bit in there. So this was this has been fun to research and fun, the fun to talk about. Yeah,



Alex Hubenthal 32:26

well, thank everybody for listening. And before we let you go, I wanted to let you guys know about our website that's been launched simple fiscal calm, which is a free resource for you guys to get more information about everything that we've talked about podcasts, blog posts, and some little freebies on there. So go ahead and check us out on simple fiscal.com



Declan Wilson 32:47

awesome,



Alex Hubenthal 32:48

talk soon. Take care, guys.