CAPITAL ASSET MANAGER

BY **TAX**TOKEN

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PROBLEM

In early 2014, the IRS classified bitcoin and other digital currencies as "property" rather than "currency." Treatment of digital currencies as "property" or an asset carries significant tax implications for many in the US using cryptocurrency. This ruling means that buying goods and services with cryptocurrencies, selling cryptocurrencies on an exchange, selling cryptocurrencies to another person, and mining cryptocurrencies are all taxable events.

For US taxpayers, this ruling triggers an administrative tax nightmare. Keeping track of the exact price at the moment you buy or sell a cryptocurrency—for potentially thousands of transactions—is a daunting proposition. In fact, the high level of expertise required to stay compliant with the IRS resulted in only 802 individuals reporting a cryptocurrency capital gain or loss in 2015, despite millions of cryptocurrency users. This vast underreporting was extremely concerning to the IRS.

Coinbase, the largest US digital currency exchange with over 10M users, felt the brunt of this concern. The IRS issued a John Doe summons to Coinbase, attempting to gather information on millions of taxpayers. When Coinbase refused to comply with the summons, the IRS filed a federal lawsuit. The lawsuit pressured Coinbase to provide the IRS with information on an estimated 14, 355 taxpayers. This information includes each user's name, birth date, address, taxpayer ID, records of account activity, and account statements.

The IRS' treatment of cryptocurrencies is a problem for both individual taxpayers and companies who wish to adopt blockchain payment solutions. An intricate tracking and reporting process deters many from using virtual currencies in a practical way. The current market, in which cryptocurrencies are quickly gaining traction and credibility, lacks a system that efficiently and accurately reports cryptocurrency capital gains and losses. TaxToken's patent-pending Capital Asset Manager provides a solution to this problem by automatically tracking and sorting cryptocurrency capital gains and losses. Our Capital Asset Manager even goes one step further by autofilling the results to taxpayers' 1040 schedule D.

America's stance on treating cryptocurrencies as property, not currency, has presented a unique problem for adoption and implementation in the financial sector. As incredible as the benefits of blockchain technology are to businesses and consumers, these benefits will lie dormant unless businesses have a way of complying with the IRS. TaxToken recognized this need and designed our Capital Asset Manager to provide clients with the necessary tool to track and report cryptocurrency transactions, all while complying with the IRS. TaxToken's Capital Asset Manager will empower companies and consumers to implement the use of digital currencies, while also providing them the peace of mind that comes with tax compliance.

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PATENT-PENDING CAPITAL ASSET MANAGER

With the rapid advancement of blockchain technology, the IRS has left doubts regarding future reporting of cryptocurrency assets. The IRS has left no doubt, however, about its growing interest in a $700 billion cryptocurrency market. Confusion over how exactly cryptocurrencies are taxed, combined with no streamlined process, has left many individuals and companies looking for answers.

To ensure our users financial well being, we have developed an automated, easy-to-use Capital Asset Manager. Our application will work seamlessly with phones, computers, wallets, exchanges, smart cards, and our very own accounting software—BlockBooks. The Capital Asset Manager will track and categorize capital gains and capital losses, as well as comply with all IRS rulings and exemptions surrounding the categorization of [U.S. Code § 1221 - Capital Asset Defined]. As the manager is developed, we will look to include international tax law as well.

TaxToken recognizes the importance of staying up to date with regulatory requirements in such a dynamic environment. As rules and regulations change, appropriate software updates will be made to ensure compliance with the latest laws and IRS regulations. TaxToken's software combined with our professional accounting expertise aims to deliver an adaptable, reliable, and IRS-friendly solution.

INDIVIDUAL CONSUMER USE CASES

Consider the following examples to see just how important the Capital Asset Manager is for the adoption and use of digital currencies:

Purchase of Goods or Services

Let's say a US taxpayer, named Bob, bought one bitcoin for $10,000. Two weeks later, Bob buys a cup of coffee with bitcoin. The act of purchasing a good (coffee) has triggered a taxable event. Bob would have to track several aspects surrounding this transaction in order to report his taxes correctly. For example, Bob must determine 1) the correct original bitcoin cost when he first purchased it, in this case $10,000, 2) whether bitcoin has increased or decreased in value since the original purchase, and 3) whether his transaction would be considered a short-term or long-term capital gain or loss. Bob has a lot of information to track. He would have to sort and compile each of his bitcoin transactions to be fully compliant with the IRS—or he could let TaxToken's Capital Asset Manager do the work for him.

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Selling Bitcoin

Let us return to the previous example and assume Bob has bought one bitcoin for $10,000. Bob wants to sell part of his bitcoin and convert it to fiat. If bitcoin has appreciated since Bob first purchased it, Bob would recognize a capital gain. If bitcoin has depreciated, Bob would recognize a capital loss. The length of time Bob has owned the asset will determine if the asset should be reported as a long- or short-term capital gain/loss.

Exchanges

If Bob sells bitcoin for fiat on an exchange, he has triggered a taxable event. If Bob trades one cryptocurrency for another, he has again triggered a taxable event, which is not treated as a like kinded exchange. The new US tax bill recently signed into law reserves like kinded exchanges for just property. Despite cryptocurrencies being classified as property by the IRS, they are exempt from being treated as like kinded exchanges, unlike other forms of property. Therefore, whether money remains on an exchange and never enters your traditional bank account does not matter; the transaction is still taxable.

Mining

Bob decides he wants build a mining rig and start mining bitcoin and other alt-coins. For tax purposes, all coins obtained from mining are recognized income immediately at their fair value. The initial fair value is also used as the cost basis to later determine capital gains and losses. If the activity of the mining operation rises to the level of trade or business, deductions for mining can be taken, such as mining equipment or electricity.

Gifts

Although recipients of gifts are typically exempt from taxes, digital currencies create a unique problem. Gifts of property which realize a capital gain or loss *are* taxable. Because digital currencies are currently treated as property, digital currenices received as a gift are subject to being taxed. Therefore, the complexities of establishing a cost basis and taxing the capital gain or loss remain present.

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BUSINESS USE CASES

The Capital Asset Manager isn't just for individuals. The following examples highlight business use cases for TaxToken's Capital Asset Manager:

Merchants Accepting Payments

Imagine a merchant accepting cryptocurrencies as payment. Such a merchant may acquire bitcoin or other cryptocurrencies through thousands of transactions. In such a scenario, the cost basis for each transaction must be established depending on the market price at the time of the transaction. The merchant must also determine what method is best for selling a percentage of his assets, such as LIFO or FIFO. The amount of recordkeeping required can become overwhelming and quickly makes accepting cryptocurrency payment methods unfeasible.

Some merchants will instantly convert cryptocurrency into fiat, as a way to circumnavigate the many complicated tax variables. However, this involves additional third-party services and is not necessarily user-friendly. Furthermore, if for any reason the conversion process is slightly delayed due to unforeseen variables, the merchant may then become responsible for tax liabilities, especially in cases using volatile cryptocurrencies. Market fluctuation during a third party's conversion process would become a capital gain or loss. While this case may certainly be an outlier, businesses should have the tools necessary to stay compliant with the IRS regardless. Our Capital Asset Manager can handle these fringe scenarios, as well as more common ones, allowing merchants to accept cryptocurrency payments without the fear of being non-compliant.

Payroll

Employees are increasingly interested in being paid with cryptocurrencies, especially in technology fields and among workers who deal with international payments. TaxToken will help pave the way for new payroll methods, providing the accounting and tax software necessary to interpret blockchain transactions. The ability to manage capital gains and losses through a potentially complicated payroll process will prove increasingly useful in the years to come.

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Inventory Management

Our advanced inventory management system is capable of auto-generating journal entries. These entries will confirm payments are received and calculate perpetual inventory levels. These processes are made possible by accepting payments utilizing blockchain technology, which, again, creates a need for the proper tracking and management of received cryptocurrencies.

Furthermore, companies will become less inclined to constantly convert digital currencies to fiat as blockchain payment infrastructure develops and it becomes increasingly advantageous to transact with digital currencies. TaxToken's advanced inventory management system provides a perfect example of this evolution. Smart contracts could identify perpetual inventory levels and order new inventory from a trusted supplier. Instead of converting received digital currency payments to fiat, the payment for new inventory would pull directly from a company's digital wallet.

IN CLOSING

The previous examples illustrate how difficult remaining compliant with tax law would be for individuals and companies using cryptocurrencies. The accounting and tax consequences of utilizing digital currencies can overburden users and stifle the adoption of blockchain technology.

TaxToken's Capital Asset Manager is a native blockchain application and, as such, was designed with the unique demands of blockchain technology in mind. Other tax applications take a one-size-fits-all approach and have not accounted for certain blockchain complexities in reporting taxes, causing users to overpay. The TaxToken team is confident that our Capital Asset Manager is the solution that this incredibly exciting space desperately needs, saving users money and time while giving peace of mind.