



Crypto Complications

May 19, 2023

The crypto world tells us that Bitcoin, Ethereum, and other cryptocurrencies are well, currencies, to be used in ordinary buy and sell transactions. You might try buying groceries with a fractional Ethereum token to see that there are some pretty severe limitations on crypto commerce. But that's just a small part of the difference between using dollars and digital currency.

One of the biggest problems is that under current IRS rules, buyers must calculate taxes on every transaction they make using their crypto debit card. So if you bought a position in Bitcoin, and then decided to buy, let's say (to choose something that is actually sold in cryptocurrencies) firearms in bulk or a large shipment of illegal drugs, or (more prosaically) a Tesla, a Rolex watch from BitDials or a domain name from Namecheap, you would have to calculate the difference in the price of those token assets when purchased and when used to make a purchase and enter it on Form 8949 of your tax return. If the token increased in value during that interval, then that purchase would trigger short-term or long-term capital gains taxes. If it decreased in value, that would be represented as a loss.

If you made 20 or 30 purchases in the course of a year, the paperwork burden would add up. Not to mention the nontrivial challenge of knowing the cost basis of all of the parts of the coins that you used in the transaction. The IRS says that you must either specify the cost basis of the specific allotment of Bitcoin or other digital tokens that you used for the purchase, or you would use the First-In/First-Out methodology, where you would assign, to the purchase, the cost basis to the oldest units of crypto that you own.

If your oldest acquisition of digital currency happened to be less than the acquisition price, then you would assign the first (oldest) currencies first, then the next-oldest, and so forth. The IRS requires that you list the date and time each unit was acquired, the cost and fair market value of the units, the time the unit was used for the purchase, and all of this on a per-account or per-wallet basis. What fun you're having!

A second challenge is the speed of a transaction. Currently, Bitcoin's absolute maximum capacity is handling seven transactions a second, compared with, say, Visa, which handles more than 185 billion transactions in a typical year. Transactions can wait in line for hours before they move from pending to complete—and this also drives up transaction fees.

Proponents tout the Blockchain system where all transactions are placed on a ledger that is read by all other ledgers throughout the world. But it's fair to wonder whether it's remotely scalable to have every purchase by every consumer updated on every crypto user's computer, or (perhaps) more efficient for the bank and the retail vendor to capture a record of each transaction between their two systems. The old-fashioned dollar, or the electronic version that lives in our credit card and bank account systems, may seem clunky to the techno elite, but in fact, so far at least, it's far more efficient as an actual currency.

Sources:

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<https://cointelegraph.com/learn/what-can-you-buy-with-bitcoin-a-beginners-guide-to-spending-your-btc>

If you have any questions about this article or want to discuss your family finances, investment portfolio, or financial planning advice, please call on me anytime at my number [\(215\) 325-1595](tel:2153251595) or you can [click here to schedule a meeting](#).

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