Classifying Digital Assets

Prof. Seoyoung Kim
Santa Clara University

@ San Jose, CA
February 9, 2024

Blockchain Tax Conference
(Sponsored by the SJSU MST Program)

Highlights

1. "Crypto" is not its own separate asset class.

2. Asking what is "crypto" == Asking what are you keeping a record of (on a public blockchain)

3. Depending on the issuer, a given token/coin/NFT may be tracking ownership of money, securities, club memberships, etc!!

Recordkeeping in Excel

Track who owns how many dollars!

... or who owns which car!

... or who owns which house!

... or open a new tab to track something else!

Q: Would you group these all as the Excel Asset Class??

Seoyoung Kim • Blockchain Tax Conference (2024)

Recordkeeping on a Public Blockchain

Token MutantApeYachtClub ⓘ

NFT ⓘ

Featured: Looking for farms to harvest on? Check out **Yield Farms!**

Buy ▾   Exchange ▾   Earn ▾   Gaming ▾

Overview

TokenID:	**7632** ⓘ
Transfers:	4

Smart contract account address for MAYC

Profile Summary [Edit]

Contract:	0x60e4d786628fea6478f785a6d7e704777c86...
Official Site:	https://boredapeyachtclub.com/#/mayc
Social Profiles:	

Public Block Explorer

Transfers   Inventory   Info   Contract   Comments

TokenID: 7632

A total of 4 transactions found

First   <   Page 1 of 1

Current Owner

	Txn Hash	Method ⓘ	Age	From		To
👁	0xf2bef224a88b277e674...	Atomic Match_	2 days 1 hr ago	0x52e0f7339c1bed710d...	→	0xf2a091f0f811ddd72e5...	763
👁	0xa59df2db61a27e1661...	Atomic Match_	2 days 3 hrs ago	0x0fb8891714e5ed8ba9...	→	0x52e0f7339c1bed710d...
👁	0x595734d98c58721ac0...	Atomic Match_	2 days 3 hrs ago	0x99854ba0a00012336f...	→	0x0fb8891714e5ed8ba9...
👁	0x4427772c8ecc20800c...	Mint Mutants	2 days 5 hrs ago	0x0000...0000	→	0x99854ba0a00012336f...	7632

3rd owner

2nd owner

First owner

Top Bid
◆ 6

Classifying Crypto

What are you keeping a record of?

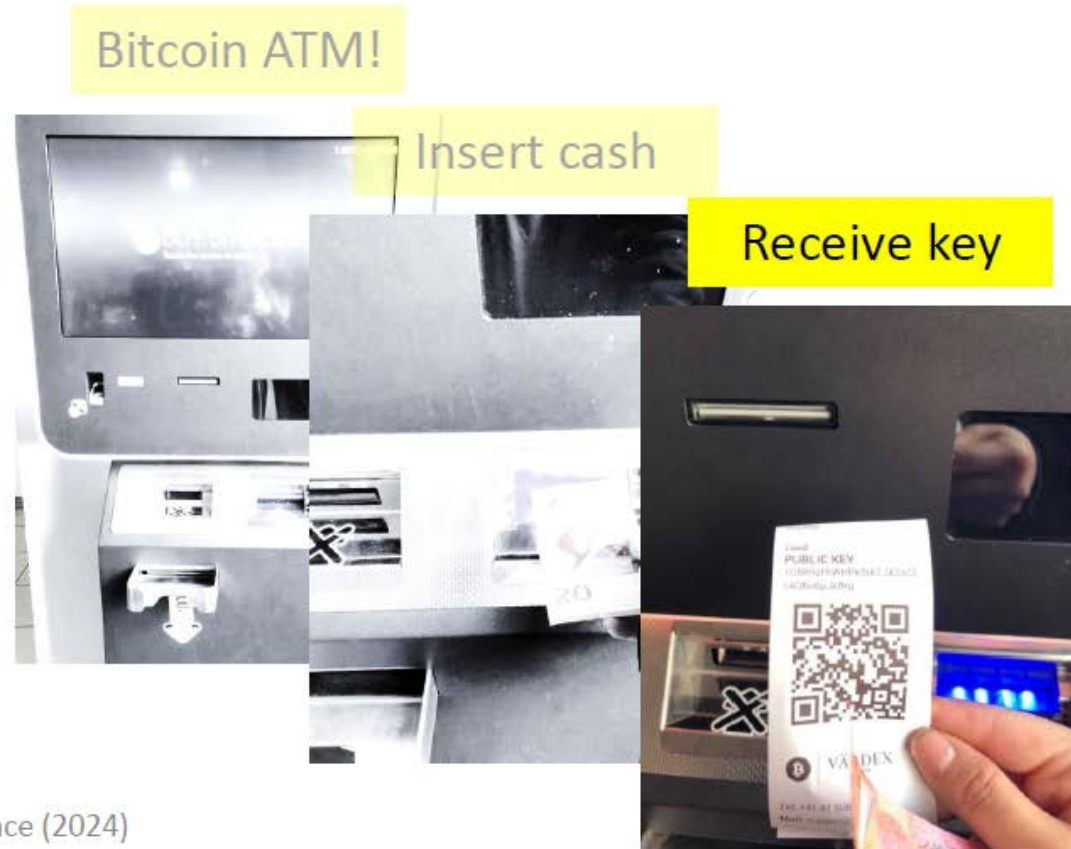### (on a distributed ledger / public blockchain)

Where Do We Go From Here?

Near-Term Fixes & Long-Term Goals

What We Badly Need Right Now

1. Better UI/UX and education

Public blockchains are still relatively difficult to navigate and there's a lack of onramp education
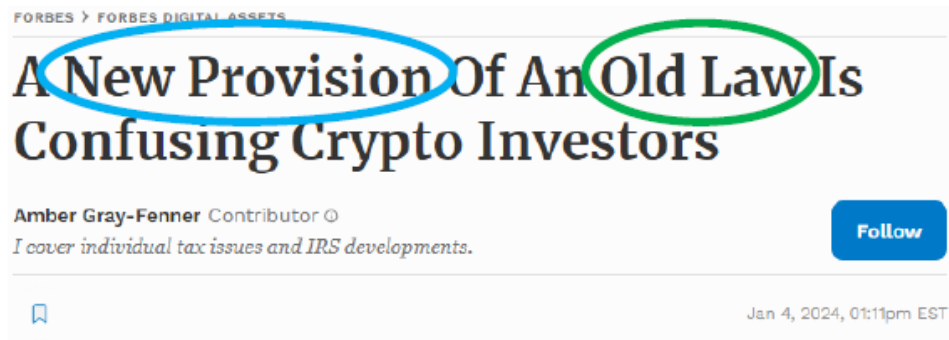
Bitcoin ATM!

Insert cash

Receive key

What We Badly Need Right Now

2. Proper understanding and classification of the varying crypto-assets and DeFi protocols

This is critical for regulatory compliance!

- Appropriate filing and registration
- Making requisite disclosures
- Proper tax treatment
- Etc.

FORBES > FORBES DIGITAL ASSETS

A New Provision Of An Old Law Is Confusing Crypto Investors

Amber Gray-Fenner Contributor ⓘ
I cover individual tax issues and IRS developments.

Follow

Jan 4, 2024, 01:11pm EST

Internal Revenue Code Section 6050I:

Does not pertain to check or debit transactions →
- Cash transactions in excess of $10,000 must be reported to FinCEN

So then this should not pertain to crypto transactions made from custodial wallets/accounts →
- Starting in 2024, 6050I also applies to crypto

Question: But what exactly does that mean?

What We Badly Need Right Now

2. Proper understanding and classification of the varying crypto-assets and DeFi protocols

This is critical for regulatory compliance!

- Appropriate filing and registration
- Making requisite disclosures
- **Proper tax treatment** ←
- Etc.

Side Bar: Fundraising Methods

You can raise $$$ to develop a product by...

- Borrowing money
- Promising shared ownership / profit participation
- Pre-selling the product!!

Long-Term Goal

- Consistent regulation and treatment of like-kind crypto and non-crypto counterparts

    - Utility tokens   Not security!

    - Stablecoins backed by traditional assets

    - Algorithmic stablecoins backed by crypto

    - Governance tokens   Security!

    - Staking/lending protocols

    - Etc.   Must be evaluated!