Podcast summary for Patrick Camuso – The Disciplined Investor Podcast

Episode 903 (Guest Segment)

Quick recap

Patrick and Andrew discussed the aftermath of recent natural disasters in North Carolina and the taxation issues related to cryptocurrencies. They delved into the complexities of crypto accounting and taxation, including the shift from a universal basis to an account-based tracking method, the requirement for specific identification for tax lots, and the upcoming changes in tax reporting for digital assets. They also discussed the challenges of compliance with Know Your Customer (KYC) and Know Your Client (KYC) regulations for decentralized exchanges (DEXs) and the tax implications of liquidity provision and yield farming.

Summary

Cryptocurrency Taxation and Natural Disasters

Patrick and Andrew discussed the aftermath of the recent natural disasters in North Carolina, particularly the hurricanes and wildfires. They then shifted their conversation to the taxation issues related to cryptocurrencies. Patrick expressed his readiness to discuss the topic, acknowledging the complexity and the recent developments in the crypto tech industry. Andrew planned to introduce Patrick before diving into the discussion.

Cryptocurrency Taxation Evolution and Compliance

Andrew and Patrick discussed the evolution of cryptocurrency taxation. Patrick, a CPA and expert in crypto taxes, shared his journey into the field, starting with a career at Deloitte and later launching his own firm in 2016. He noted that while many people initially disregarded the need for crypto tax compliance, the industry has matured, with the IRS estimating a 75% noncompliance rate among taxpayers. Patrick's firm has grown with the industry, serving clients from Bitcoin miners to NFTs and Web 3. Andrew asked about misconceptions people have about crypto taxes, but the meeting transcript does not provide a response to this question.

Crypto Accounting and Taxation Challenges

Andrew and Patrick discussed the complexities of crypto accounting and taxation. They highlighted that many people are unaware of the taxable events that occur when they dispose of crypto assets, such as exchanging one crypto for another. They also discussed the accounting methods used, including FIFO (First In, First Out) and LIFO (Last In, First Out), and the potential for unexpected tax consequences if the wrong method is used. They noted that the accounting method decision has been clarified in recent years, with the introduction of the Universal Basis method. They concluded that taxpayers should consider the correct accounting method for their specific situation to avoid potential tax issues.

Cryptocurrency Tax Accounting Challenges Discussed

Patrick and Andrew discussed the complexities of cryptocurrency tax accounting, particularly the shift from a universal basis to an account-based tracking method as per the IRS Revenue Procedure 2024-28. They highlighted the issues with using the Hypo method and the need for specific identification for tax lots. They also discussed the requirement for standing orders for non-custodial wallets and exchanges like Coinbase. Andrew's situation, where he bought Bitcoin and held it without trading, was deemed to require minimal action. However, both agreed on the importance of annual accounting for accurate cost basis calculation and tax compliance.

Digital Asset Tax Reporting Changes

Patrick and Andrew discussed the upcoming changes in tax reporting for digital assets, with the introduction of the 1099 DA form. They noted that this would initially cause issues, particularly with discrepancies in cost basis calculations. They also touched on the potential inclusion of decentralized exchanges (DEXes) in the definition of a broker, which has raised concerns about stifling innovation. Andrew then shifted the conversation to advanced topics like yield farming and NFTs, expressing uncertainty about their future relevance.

KYC Compliance and Tax Implications

Andrew and Patrick discussed the challenges of compliance with Know Your Customer (KYC) and Know Your Client (KYC) regulations for decentralized exchanges (DEXs) like Uniswap. They agreed that DEXs would likely be forced to comply with these regulations to avoid enforcement and maintain their businesses. They also discussed the tax implications of liquidity provision and yield farming, emphasizing that these transactions are often taxable events. Patrick clarified that providing liquidity without exchanging assets is not necessarily a taxable event, but exchanging one asset for another usually is. They concluded by noting that tax laws and compliance requirements vary globally, and the US is not considered a tax haven.

Implications of Crypto Key Disclosure

Patrick and Andrew discussed the case of a man who was sentenced to two years in jail and had to turn over his private crypto keys to the IRS for tax evasion. They discussed the implications of this case, particularly how the public nature of blockchain transactions makes it difficult to hide assets. They also noted that the man's transactions were all recorded on a public ledger, making it impossible to hide his activities. The conversation ended with a discussion on the permanence of blockchain records, which cannot be removed or destroyed.

Cryptocurrency Tax Compliance and Accounting

In the meeting, Patrick and Andrew discussed the complexities of cryptocurrency tax compliance, particularly for expats and those holding crypto in multiple jurisdictions. Patrick emphasized the importance of getting accounting up to date, especially for those who held crypto before 2025, to avoid audit risks and potential tax evasion issues. He also advised those with complex crypto accounting to allocate their assets following a certain procedure. Andrew agreed, noting that even those just starting with crypto should ensure their accounting is up to date. Patrick concluded by recommending staying on top of portfolios for tax optimization and planning.