

The Disciplined Investor Podcast – Guest Interview Summary

Guest: Pat Camuso

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Summary

Crypto Tax Compliance Challenges

Patrick discussed his early entry into crypto accounting in 2016, driven by his belief in Bitcoin and decentralization. He highlighted the challenges people faced regarding crypto tax compliance, including confusion over how different cryptocurrencies should be taxed and the misconception that crypto-to-crypto trades were not taxable. Patrick noted that the IRS treats cryptocurrencies as property, making crypto-to-crypto trades taxable, which often catches people off guard, especially during market fluctuations.

Patrick's CPA Firm Entrepreneurship Journey

Patrick discussed his decision to leave Deloitte to start his own CPA firm, explaining that he had always intended to be an entrepreneur and pursue a career that would lead to a deep understanding of business and investments. He described how his background in accounting and work with large investment managers led him to learn about Bitcoin and precious metals, which defined the trajectory of his career. The conversation ended with a lighthearted exchange about Patrick's hometown in the Poconos and a shared memory of Mount Airy Lodge.

Crypto Tax Enforcement Updates

Patrick explained that IRS approaches to crypto taxation have significantly changed, with increased enforcement and information collection through various methods including John Doe audits and international data sharing. He noted that his firm has received dozens of inquiries from people receiving IRS tax notices about unreported crypto transactions. Patrick mentioned that this tax season will see the introduction of new 1099-DA forms for centralized exchanges, which will report transaction details similar to how 1099-B forms report stock transactions.

Crypto Tax Compliance and Reporting

Patrick explained that the 75% non-compliance rate with crypto tax reporting exists, with many people needing to reconstruct cost basis data going back several years. He discussed how the new 1099DA reporting requirements will likely ensnare more non-compliant taxpayers and create matching issues, particularly since basis information is not currently required to be reported. Patrick also explained that non-custodial wallets and DeFi protocols were initially included in the broker regulations but were later repealed through congressional action, likely due to industry lobbying and concerns about KYC requirements.

Cryptocurrency Taxation and Compliance Challenges

Andrew and Patrick discussed the tax implications of cryptocurrency for U.S. citizens, emphasizing that worldwide income is taxable regardless of where it's held. Patrick highlighted the risks of selective reporting and shared examples of recent crypto tax evasion cases, including Richard Albrecht III's high-profile conviction. They also explored the challenges of sales tax compliance for Web 3.0 businesses and NFTs, with Patrick noting that over 30 states now tax digital products and goods, including NFTs. Andrew expressed skepticism about the industry's difficulty in understanding tax obligations, given the sophisticated technology behind cryptocurrencies.

Stablecoins and TradFi Integration

Andrew and Patrick discussed the evolution and integration of stablecoins and traditional financial systems. They highlighted the growing collaboration between traditional finance (TradFi) and Web3, noting examples like stablecoin companies seeking financing from OldFi institutions. Patrick mentioned upcoming episodes of his Financial Frontier Podcast featuring experts on crypto taxes and regulations, including a former IRS executive director. The conversation touched on the changing perceptions of digital currencies and the increasing professional presence in crypto conferences.

Cryptocurrency Compliance and Market Shift

Andrew and Patrick discussed the evolving landscape of cryptocurrency and compliance, noting a shift from resistance to acceptance in the industry. They highlighted the importance of regulatory compliance for wider adoption, particularly among institutions and mainstream retailers. The conversation touched on the changing dynamics at crypto conferences and the increased focus on crypto regulation in Washington D.C. They also discussed stablecoins, with Andrew drawing parallels between the promised returns of algorithmic stablecoins like Terra/Luna and the infamous Madoff scheme, which offered consistent 15% returns.

Stablecoin Market Dynamics Discussed

Patrick and Andrew discussed the proliferation of stablecoins in the market. Patrick explained that major players seek to control payment rails and gain fees, data, and leverage, while Andrew questioned the need for so many stablecoins. They agreed that competition would likely result in one dominant global stablecoin, though Patrick noted the trade-off between decentralization and having a single worldwide currency.

Stablecoin Centralization and Regulatory Challenges

Andrew and Patrick discussed the balance between centralization and decentralization in stablecoin systems, with Patrick noting that fragmentation across different blockchains, users, and regulatory environments creates opportunities for various stablecoin models. They explored the tax treatment challenges of stablecoins, with Patrick highlighting how they are currently treated as property rather than cash, creating unnecessary administrative burdens. The conversation concluded with a discussion of how stablecoins backed by U.S. Treasuries could be beneficial for the financial system, potentially providing a guaranteed buyer for treasuries and affecting interest rates.