

# Will the Bitcoin Become a New Tax Evasion Tool?

by Joseph M. Donegan on August 19, 2013

Bitcoins, a controversial but highly popular global digital currency, is being used by more consumers to make several types of transactions. Although no government has recognized the bitcoin as a legitimate currency or placed concrete value on its use, the anonymity afforded to bitcoin users, coupled with the growing trend of bartering them for assets that carry value, has drawn attention to the currency as a potential tax evasion tool.

A recent Yahoo analysis noted that "money" is not necessarily defined by production or recognition and distribution by a government agency. Instead, the article argued that money is typically defined as any tool that can enable financial transactions. Under this expanded definition, the ubiquitous bitcoin may qualify, namely because it has and continues to be used to transact real property, foreign currencies, barter, and financial instruments. Whether this argument will hold up in a legal atmosphere is still undetermined, but federal authorities - including the Internal Revenue Service - are weighing these arguments carefully.

Because bitcoins may be used to facilitate financial transactions, the IRS in particular is focusing on the currency and where it falls in line with federal tax laws. Forbes recently analyzed the use of bitcoins as a potential tax evasion tool, noting that anonymity is one of the key issues that may make avoiding taxes possible for users. In addition, the IRS relies heavily upon financial institutions and foreign governments to report details of account holders for tax purposes. As bitcoins are not recognized as a legitimate currency, users do not have to rely on financial intermediaries to move them or make transactions.

Further, there are several legal questions that remain. For example, if consumers exchange bitcoins for cash, the question of whether there is a "gain" may depend largely on whether bitcoins are viewed as a currency or commodity, Forbes explained. Until these questions are answered, speculation of whether the digital currency will emerge as a tool to avoid taxes - and how this issued will be resolved - may continue to grow.