

# U.S. On Track to Regulate Cryptocurrency: Knowledgeable Valuation and Understanding of Taxation Will be Critical as Regulations Emerge

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Cryptocurrencies such as Bitcoin have gradually gained in popularity over the years and appear to be well on their way to achieving widespread institutional adoption. According to Bloomberg, an astounding [\\$17 billion](#) flowed into the crypto market via venture capital funds in 2021 alone, a new record for institutional investments in the space.

However, if you're one of many firms that has added crypto to your balance sheet in

the past few years, it's important to pay attention to some developing news that could have an impact on how you handle these assets. Currently, the IRS simply treats crypto holdings as taxable property, but after years of speculation as to how, when, or if the U.S. government would decide to impose further regulations on the increasingly expansive cryptocurrency market, President Biden recently issued an executive order on the matter.

Among other measures, the president's order urges the Federal Reserve to explore whether the central bank should jump in and create its own digital currency. It also directs the Treasury Department and other federal agencies to study the impact of cryptocurrency on financial stability and national security.

Even though the president's executive order imposes no immediate additional regulation on cryptocurrency, nearly three dozen bills have been introduced in Congress relating to crypto taxation and regulation. Investors and businesses that deal in crypto are well advised to seek knowledgeable valuation and cryptocurrency tax advice if they have not already done so.

In this article, we'll cover what we know about the government's existing plans to regulate cryptocurrencies.

## **Why Regulate Crypto?**

Before we dive into the most recent developments, it's helpful to understand exactly why the cryptocurrency market would need to be regulated in any way. After all, if you're one of the earliest advocates of Bitcoin, the idea of regulation runs contrary to the digital asset's underlying premise of financial freedom.

Although there are many complex factors that contribute to the need for further cryptocurrency regulation, the U.S. government seems primarily focused on the following three points:

**Deterring theft and cybercrime.** Cyber criminals are bound to penetrate any burgeoning industry, and cryptocurrency is no different. For years, cybercriminals have trafficked in digital assets to safeguard funds gained through illegal activity, and hackers are [increasingly targeting](#) the digital wallets of institutional and retail

investors on online exchanges.

**Warding off financial instability.** Stablecoins, or digital assets for which value is tied to that of a specific fiat currency such as the U.S. dollar, are currently on the Fed's radar as a [potential threat to financial stability](#). In late 2021, after conducting initial research into stablecoins, the Fed has reportedly called the assets "fragile" and characterized by a "general lack of transparency."

**Protecting the environment.** As their popularity increases, a new focus has been placed on the use of energy associated with digital assets, and critics are increasingly concerned that an uptick in mining activity could have a negative impact on the environment. The U.S. government has also taken notice, and the House Energy and Commerce Oversight and Investigations panel convened a hearing to discuss the issue last January.

### **New Enforcement Agencies Emerge**

Despite no formal regulations being announced at this time, at least two new law enforcement units have been assembled to address potential issues related to digital assets. On February 17, 2022, for example, the Justice Department announced Eun Young Choi as the first director of the recently formed National Cryptocurrency Enforcement Team (NCET).

According to a government-issued [press release](#), the NCET "was established to ensure the [Justice] department meets the challenge posed by the criminal misuse of cryptocurrencies and digital assets."

After the news broke, not even a day passed before the FBI [announced](#) the formation of their own crypto-specific crimes unit, the Virtual Asset Exploitation Unit (VAXU). This team of blockchain specialists and crypto-savvy investigators will serve as an extension of the NCET and will work specifically to address what U.S. Deputy Attorney General, Lisa Monaco, has called "the explosion of ransomware and abuse of cryptocurrency."

### **Clarity on the Horizon**

While investors will need to tolerate further uncertainty until the studies ordered by

President Biden are completed, many expect that his executive order is the first step toward clarity regarding crypto regulations.

It's important to note that the president's order is limited to a broad commissioning of various agencies to study, and produce comprehensive reports on, crypto and the broader digital payments landscape. While it may not seem like a huge leap forward, the administration's focus on gathering information is significant in that it speaks to the need for regulatory institutions to actually understand how digital assets work before attempting to impose any restrictions. In all likelihood, the reports produced as a result of the president's order will closely resemble a recent [white paper](#) published by the Fed on stablecoins and the possibility of developing a digital dollar.

Importantly, although the order does not impose any specific regulations on the crypto market, many expect that it will serve to greatly accelerate the ability of regulatory institutions and members of Congress to promote and seek to implement their own rules. According to [Forbes](#), 2021 saw the introduction of 35 individual bills focused on U.S. crypto policy, many of which focused on tax and reporting requirements, as well as establishing a clearer direction in regard to SEC oversight of the crypto market.

In conclusion, while a lack of active regulations on cryptocurrency makes it nearly impossible to evaluate their potential impact, the mobilization of law enforcement, Congress and regulatory institutions, and an executive order from the Biden administration all seem to forecast a new level of clarity in the near future. In the meantime, firms with crypto on their balance sheets should remain vigilant, and only take preparatory action based on extensive research into proposed legislation and in accordance with new developments as they become available.

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