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View: How to live with cryptocurrencies
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In July, US computer manufacturer Dell announced it would start accepting Bitcoin as payment for products and services. Less than a month later, the company announced its first large order — servers worth approximately $50,000 — paid for in Bitcoin.

The cryptocurrency has been accepted among a growing community of individuals and businesses since 2009. As the system around it matures, adoption is growing among industries and geographies. Neither cryptocurrencies nor fiat currencies (those issued and regulated by sovereign nations) seem likely to disappear, and that presents distinct challenges for companies operating in a global economy in which both types of currencies coexist.

First, a cryptocurrency is not a currency according to tax authorities. Rather, it is property (data) that is accepted as a store of value and used as if it were a currency in transactions. Cryptocurrency payments are treated as barter transactions, which brings the complexities of valuing your investment and analysis of gains or losses. Some governments have adopted exemption thresholds, while others have yet to issue formal positions. The lack of formal regulation or tax guidance presents challenges.

Adoption among consumer groups has been rising for a number of reasons. The exchange between purchaser and seller occurs anywhere from 10 seconds to 10 minutes after the transaction, faster than other traditional forms of electronic payments. The transactions are peer-to-peer, without intermediaries. Also, because it separates money from government monetary policy, many users find cryptocurrencies can be used as a means to avoid local currency fluctuations. They also find it cheaper than wire transfers, specifically for moving smaller sums of money. Adopters continue to call for businesses to accept Bitcoin.

Overstock.com, Dell, and Expedia are some of the larger companies among an estimated 100,000 merchants in the US who will accept cryptocurrencies by the end of 2014, whether to gain access to a customer base, to generate marketing hype, or for lower transaction fees compared to credit cards.

What does it mean, practically, to say that a cryptocurrency is taxable as a barter transaction? Consider a boutique in California that receives 1 Bitcoin worth $500 in exchange for a pair of sandals. The business has to recognise income and track subsequent gains or losses based on the fair market value of that Bitcoin. The Bitcoin's value decreases to $450, and the store uses it to pay an employee bonus. When the store moves the Bitcoin to the employee's ewallet, they recognise a loss of $50, the employee has a Bitcoin worth $450 and also reportable income of the same amount. The boutique must account the loss for deductibility and also withhold taxes to pay on behalf of the employee, which means selling part of the Bitcoin to pay the tax or grossing up the employee's reported income. The gains and losses associated with using such cryptocurrencies require meticulous tracking.

For financial institutions, cryptocurrencies present three distinct opportunities:

- As a currency to attract new consumers and merchants, who themselves want to capture new type of customer.
- As a technology to enhance money transfer capabilities for themselves and their customers. Companies are delivering cheaper, faster transaction methods using Bitcoin. For example, a multinational might have a UK subsidiary convert pounds to Bitcoin, then send it to the US parent for conversion to dollars. These rapid transactions today incur no fees and risk little exchange rate volatility.
- As an investment vehicle, similar to precious metals, to capture upside and manage downside. The proposal by Cameron and Tyler Winklevoss to launch a Bitcoin exchange-traded fund, which is currently awaiting regulatory approval, is one example of how cryptocurrencies might eventually converge with the financial system.

For financial institutions to incorporate cryptocurrencies into their operations, they will have to integrate technology with payment systems and financial platforms. They may also face accounting complications and have to consider the cannibalisation of existing money transfer services. Finally, they must navigate regulatory risks related to money laundering and customer protection, and overcome a perception of illicit activity.

In the long term, it seems likely that cryptocurrencies and fiat currencies will continue to coexist. Broader regulations and trust may lead to greater adoption. The global domination of Bitcoin-style cryptocurrencies is unlikely, but their use is gaining acceptance, and many companies are evaluating their potential. Businesses should keep a close eye on the evolution of this regulatory environment and consider the complexities of this coexistence as it relates to their business.

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