

JOURNEY OF LIFE



Get Started Learning Crypto





LEARN CRYPTO

Life WITH **CRYPTO**

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Introduction

Have you noticed the world is changing? I don't mean climate change. I mean have you noticed that **money** and **finance** are changing? Yes! That's right. TECHNOLOGY IS CHANGING MONEY and FINANCE!

Consider Virtual Currency (aka cryptocurrency). Prior to 2009 that term didn't exist. Now we have things like bitcoin, altcoins, cryptocurrencies, crypto-tokens, non-fungible tokens, stable coins, and who knows what's next! Did you know that every item in this list was created by digital ledger technology most commonly called Blockchain?

At last count there are over 1 million cryptocurrencies.



My Story

got involved with bitcoin in 2015. During the summer, when the price had fallen to \$250, I decided to try it. I bought three bitcoin and as an experiment, I traded one for a used laptop then sold the other two after the price rose to \$1,250. It was fun and easy! I thought I did well. Of course, several months later the price shot up to \$20,000! That's when I knew I needed to learn more.

One of my former crypto clients found me after her accountant accused her of being involved with something illegal.

"Bitcoin is for criminals!" her former accountant exclaimed!

The shutdown of the Silk Road black-market website was fresh in people's minds back then. The owner was arrested because his site sold illegal drugs and weapons, and accepted bitcoin as payment. It's understandable her former accountant was nervous, but had she educated herself about the legality of bitcoin, she might have kept a valuable client.



Kelly Sunshawl,
Crypto investor
Crypto Educator

This free eBook is a Get Started guide to help you navigate the complex world of cryptocurrency.

My name is Kelly Sunshawl, I'm a Retired Tax Accountant, Crypto Educator, and Investor. I have taught tax professionals and everyday people about crypto, giving presentations at Oregon Society of Tax Consultants, Oregon Association of Tax Consultants, Portland Bitcoin Conference, and Life with Crypto MeetUps.



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Is virtual currency the same as digital currency?

Convertible virtual currency (CVC) is virtual currency that can be bought with and sold back into “real currency”.

Convertible virtual currencies (Bitcoin, Ether, Litecoin, etc) are cryptocurrencies that can be bought with US dollars and sold back into US dollars. They can also be traded for other virtual currencies. Virtual currencies and convertible virtual currencies are not legal tender in any jurisdiction.

What is the difference between bitcoin and altcoins?

Short answer: They are both virtual currencies. Since bitcoin was the first virtual currency some people call it a cryptocurrency and all virtual currencies created after bitcoin are sometimes called altcoins (short for alternative coins). However, not everyone follows this naming convention. Many people call all virtual currencies, cryptocurrencies. In this eBook, I generally use the term cryptocurrency to mean all fungible virtual currencies.

Is virtual currency fungible?

Short answer: Yes, mostly. Unless law enforcement decides otherwise.

Definition: Fungibility refers to the interchangeability of one unit of a commodity or good for another similar unit. For example, a pound of gold has the same value as any other pound of gold.

In my live seminars I teach that bitcoin is considered by most experts to have characteristics of money. It is **Scarce, Recognizable, Divisible, Fungible, Portable,** and **Durable**. However, in recent months a growing debate is questioning bitcoin's fungibility.



There have been instances where bitcoin was used for illicit purposes or was stolen from a centralized platform, like an exchange, and because of its traceability, some merchants have refused to accept it, or law enforcement confiscated it. I've heard stories from clients that law enforcement has knocked on the door of an unsuspecting crypto holder and taken their computer because the bitcoin on

the computer was traced from an illicit activity. In one particular instance I know the person never got their digital coins back.

What are non-fungible tokens?

Short answer: A non-fungible token (NFT) is a special type of cryptocurrency which represents something unique. They are not mutually interchangeable. NFTs are used in specific applications that require unique digital items like crypto art (rare art), crypto-collectibles, and crypto-gaming. NFTs are not regulated and tax guidance is lacking.

I think you should be aware of NFTs because they are becoming very popular. In fact, they may be the fastest growing type of crypto asset.

Cointelegraph predicts,

"I believe that 40% of new users will soon be coming to crypto through NFTs."



One use case is digital artists and musicians create unique works of art and sell them on NFT exchanges. Think of an NFT like a baseball card. Remember them? Kids use to trade them. Well now, a baseball card could be represented by a digital token that stores an image of a baseball player. If the NFT baseball card is sold, for example on a digital marketplace, then a gain may be realized, thereby creating a taxable event. From what I've seen with NFTs, they are usually sold for virtual currency (cryptocurrency) like bitcoin or ether, which means at the time of sale the value of the crypto needs to be converted into USD for tax purposes.

The original use case for NFTs is in video games. Players earn virtual coins that can be used to buy swords, gems, weapons, etc. For a long time, they could only be used inside the game where they were created. As blockchain technology develops the use of NFTs is growing.

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What is bitcoin?

Short answer: A form of cryptocurrency that only lives on the bitcoin blockchain and has the same characteristics of money but is not legal tender. It may be purchased with fiat money (US dollars), traded as property, received as wages, received as income, or received as a gift.

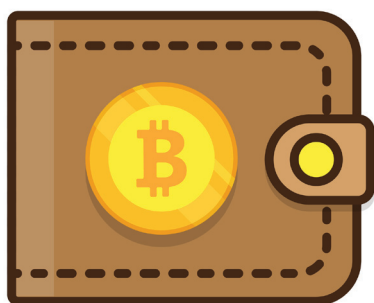
Bitcoin is a cryptocurrency that the government calls virtual currency, but many users call it peer-to-peer digital money. The value of bitcoin is set by market demands and trading gyrations similar to the stock market.



Bitcoin only exists because the internet exists, just like email only exists because the internet exists. The internet allows information to be shared across big or small distances via computers running software that use specific network protocols. For example, an email program uses an email protocol like IMAP or POP3 to send messages. Similarly, bitcoin transactions are sent across the internet using the Bitcoin protocol which is part of the Bitcoin Software.

ALL bitcoins and **ALL** their associated transactions are stored on a digital ledger inside the Bitcoin Software. This software runs on many computers connected to the internet. These computers are called Nodes and they validate bitcoin transactions in a process called “mining”. A miner’s job is to continually validate transactions and manage the digital ledger to insure no person spends bitcoins that don’t belong to them.

Cryptocurrencies like bitcoin can be obtained from a person, an exchange, or through the process of mining. Bitcoin and other cryptocurrencies can be used to purchase goods or services, pay employees and contractors, trade as property, or given as a gift. They can even be traded in a Self-Directed IRA.



Individuals keep track of their bitcoin transactions and balances with a piece of software called a bitcoin wallet. This app may reside on a computer or mobile device. In addition to keeping track of balances, the digital wallet also holds the public and private keys necessary to conduct transactions. The

bitcoin wallet communicates with the Bitcoin software following the rules of the Bitcoin protocol. The Bitcoin digital ledger that tracks all transactions is called the Blockchain.

What is Blockchain?

Short answer from Thomson Reuters: A blockchain is a distributed, decentralized ledger that lets information be viewed but not copied or altered. There is no central version of blockchain: it lives across a network of computers. This makes it incredibly secure since a hacker can't access all instances of the blockchain.

Blockchain stores transaction records in groups called blocks. Each block is time-stamped and linked to the previous block. It's incorruptible and unalterable, making it ideal for recording transactions without requiring a central authority. Information contained in a distributed ledger is updated in real-time and it's permanent, so no one can delete the information. All the information is publicly viewable, so the blockchain is completely transparent.

Importantly, because blockchain lets participants verify and audit transactions without the need for a third party, it delivers a level of certainty and trust not seen previously in internet-based transactions.

What is a bitcoin (Crypto) wallet?

Short answer: A bitcoin wallet is a piece of software that stores public key addresses, private signatures, blockchain ledger balances, and transaction history. A software wallet may reside on a computer, smart phone, or website. Some wallets hold information for multiple cryptocurrencies while other wallets may only support one cryptocurrency: bitcoin. Generally, a wallet does not know the market value of the coins it tracks, which is why a portfolio manager is required to reconcile trades.

Let's talk about wallets. The bitcoin wallet is important because it stores the following data: public-key addresses, private signature keys, history of transactions into and out of the wallet, as well as current balances. This data is stored in a software wallet which usually resides on a computer, a smart phone or website.

Remember, bitcoins only exist on the block-chain ledger and are located by their public key address stored in the bitcoin wallet. Bitcoins themselves do not actually reside in the wallet.



This is a trick question: I bought a bitcoin from Amazon similar to the one in this image. It's about 1.5 inches in diameter and comes in a little plastic case. I usually carry it with me so I can show it to people and say hey, this is a bitcoin! Their eyes usually get big. Then I tell them, "I'm just kidding! It's only a commemorative coin." It looks like gold, but only cost me about \$10.

That physical coin is not a bitcoin, folks! It's just a play coin. I know most people like to have something they can hold and touch when it's worth \$10,000+! But bitcoin and other cryptocurrencies are just ones and zeros in a computer on a digital ledger, called the Blockchain, and they're tracked with a digital software wallet.

About this time in my live presentations someone asks, "So where are the bitcoins stored?" Here's another way of looking at it.



All bitcoin transactions are listed as a record on a digital ledger that lives on the bitcoin blockchain. Each transaction record contains the date and time, the amount transacted, and the associated public key address/private key signature combination.

Who controls bitcoin?

Short answer: No one.

There is no central person or central authority in control of the Bitcoin blockchain. The digital asset of the blockchain called bitcoin is highly regulated by US regulatory agencies. In some other countries like Malta, Portugal and France, there is little to no regulation. There are places in the world where you can trade bitcoins and have no tax consequence.

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Why are there so many cryptocurrencies?

Short answer: Money is in the process of becoming deregulated. How is money deregulated? Anybody in the world can create their own cryptocurrency! Whether it becomes money depends on whether anybody wants to use it. With that kind of power, you can imagine that many companies and individuals are trying to create their own fortunes by creating their own money in the form of a cryptocurrency.

Crypto is largely an unregulated market and software developers with knowledge of blockchain technology can create their own digital currency and then advertise it to the world. If it becomes popular, it may increase in value and attract more users.

Here are five popular reasons why businesses create their own cryptocurrency:

1. To raise capital
2. To reward users
3. As an in-game currency
4. As a utility token
5. E-commerce payment and settlement layer

No matter the reason, once a cryptocurrency is created it often becomes tradeable. Currently there are over 11,000 cryptocurrencies on the market. This fact creates opportunity.

Do market forces determine which blockchain lives and which dies?

Short answer: Yes and No. If a blockchain has no transactions to validate, then it would cease to exist for lack of use.

But not all blockchains have a cryptocurrency that is tradeable on the open market. However, for tax payers, we will mostly focus on blockchains that have a cryptocurrency that is traded on a public exchange or between individuals as a capital asset. In these instances, market forces do determine if the blockchain survives. If people buy and sell the underlying crypto then the blockchain that produces that crypto will continue to exist. Some of the most popular blockchains with tradeable cryptocurrencies are Bitcoin, Ether, and XRP.

Is the value of crypto established when it hits the blockchain?

Short answer: Yes. The value of crypto is determined by market forces once it is created on the blockchain.

The price of a bitcoin and altcoins is determined by supply and demand. When demand for bitcoins increases, the price increases, and when demand falls, the price falls. Here's an excerpt from the website Investopedia.

Buying a bitcoin is different than buying a stock or bond because it's not a corporation. Consequently, there are no corporate balance sheets or Form 10-Ks to review.

Unlike investing in traditional currencies, bitcoin it is not issued by a central bank or backed by a government, therefore the monetary policy, inflation rates, and economic growth measurements that typically influence the value of currency do not apply to bitcoin.

Bitcoin pricing is influenced by factors such as: the supply of bitcoin and market demand for it, the number of competing cryptocurrencies, and the exchanges it trades on.

What determines whether an old, forked chain becomes worthless?

Short answer: Cryptocurrencies are not securities. They are virtual digital currencies treated as property in the US under IRS tax law. Therefore, worthlessness is determined by the market through which the asset might be sold or traded.

If a forked blockchain continues to operate, it's associated cryptocurrency, if it has one, will fluctuate in value just like any other cryptocurrency. The value of the cryptocurrency could go to zero while the blockchain keeps functioning or the blockchain could be terminated before the cryptocurrency value goes to zero. Let's look at this possible scenario more thoroughly.

For example, if someone is left holding cryptocurrency from a blockchain that is now defunct, and if that cryptocurrency is untradeable on crypto exchanges and there are no other buyers for the asset, then most users would consider it worthless and would expect they can deduct the loss on their tax



return. However, I don't believe that will be true in most cases.

Firstly, no loss has actually occurred yet. In this example the crypto asset was not sold, and it wasn't stolen. It just became valueless because no one wanted it after the blockchain ceased to exist. There is potentially an unrealized gain or loss. But in order to capture the capital loss, the cryptocurrency would have to be sold for less than its purchase price.

If there is no option for selling the crypto-asset, then in order to claim a loss under IRS Code Section 165, Losses, the loss must occur within a trade or business. This fact could help crypto traders who treat their trading activity like a business. But for people who are considered casual investors or hobby traders, there are few options.

Personal Crypto Loss due to casualty, theft, or disaster.

Unfortunately, after the Tax Cuts and Jobs Act of 2017, losses on personal property are generally no longer deductible at all!



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