

Ben Sizelove

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Coinbase vs. IRS

Throughout 2017 and 2018, the boom of Bitcoin and other cryptocurrencies has sparked a frenzy in both professional and novice investors alike. In February of 2017, the most popular of cryptocurrencies, Bitcoin, was close to 1000 USD a coin. Now, almost a year later Bitcoin hovers around 11,000 USD following a colossal spike of 20,000 USD in December of 2017. The subsequent growth of Bitcoin and the profits that it has produced for early investors has captivated the hopes of many in the pursuit of profit through the relatively new and convoluted cryptocurrency market. Amongst the most prosperous parties throughout the expanding popularity of Bitcoin is that of cryptocurrency marketplace, Coinbase. On their website, Coinbase proclaims to be “a secure online platform for buying, selling, transferring, and storing digital currency”(Coinbase). The growing popularity of cryptocurrencies has made Coinbase “The leading U.S. platform for buying and selling major cryptocurrencies”(Cheng). Naturally, the increasing popularity of Coinbase has sparked a variety of concerns, the most compelling of which in relation to data ethics is their recent interaction with the United States government and the IRS.

One of the most compelling attributes of Bitcoin and other cryptocurrencies is the notion of anonymity and freedom it gives to its users. While this has made cryptocurrencies more intriguing to investors, it has made the United States government wary of the vast amount of unsupervised transactions that are taking place. This has lead the Internal Revenue Service (IRS) in November of 2017 to order “Coinbase to turn over identifying records for all users who have bought, sold, sent, or received more than \$20,000 through their accounts in a single year between

2013 and 2015”(Brandom). Furthermore, this order would entail Coinbase to give the user’s name, birth date, address, and taxpayer ID, along with records of all account activity and any associated account statements. Understandably, the lengths that this demand goes to integrate accountability into the crypto markets has angered Coinbase and its users who have become accustomed to the notion that they were out of the sphere of the government’s control.

In February of 2018, despite the hopes of many that Coinbase would ward off the governments request for a plethora of personal information linking individuals to transactions, Coinbase told its customers that they “plan to comply with a court order and hand over about 13,000 customers’ data to the IRS within 21 days”(Liao). The IRS claims that they hope to seek out people who were evading cryptocurrency taxes. To some, the IRS’s request for this information may seem justifiable given that “fewer than 1,000 US citizens have reported cryptocurrency holdings on their taxes”(Brandom). While others, such as Coinbase, remain unsatisfied with the outcome because of the seemingly loose and lack of justification on part of the IRS. Furthermore, Coinbase fears that the IRS and their success in the pursuit of seemingly confidential information may set a larger and more encompassing threat to financial institutions and their interaction with government as a whole. Furthermore, the IRS’s success in obtaining information from a private financial institution such as Coinbase underlies the growing concern of government intervention and Coinbase argues that it “sets a bad precedent for financial privacy”(Brandom).

As someone who has used Coinbase to buy, send and hold cryptocurrency I argue that the IRS’s success in obtaining information from Coinbase about its users does indeed raise ethical concerns and continues to expand upon the dialogue of government interaction with private financial institutions. One major reason for my ethical concerns revolves around the seemingly

too coincidental timing of the IRS's request. As examined earlier, the boom of Bitcoin and cryptocurrencies as a whole has seen exponential growth and has produced outstanding profits for investors, but seemingly not enough for the government. In my opinion, the IRS's decision to request user data for tax purposes seems suspiciously coincidental as "the ruling [came] as bitcoin [made] historic valuation gains on a near daily basis"(Musil). From an objective standpoint, it makes fiscal sense for the IRS to request the data and further expand their sphere of influence in the taxation of cryptocurrencies. But despite the enticing financial gain, I believe the IRS falls short in the convoluted discussion of ethics. In their mission statement, the IRS claims their goal is to "provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all"(IRS). The IRS's claim that they are fair to all is outright contradicting given the fact that they are specifically requesting data for users trading over 20,000 USD of Bitcoin. If the IRS was completely invested in establishing a fair taxation of cryptocurrency, specifically Bitcoin, then their push should not be towards targeting the few but instead building a viable and uniform taxing system for all crypto traders and markets.

Similarly, the IRS's push towards a taxation of Bitcoin for users trading at a level of \$20,000 or more foreshadows a more invasive implementation of regulations in the industry as a whole. Initially, the IRS asked for records of every single Coinbase account over the period of 2013 to 2015. Unsurprisingly, Coinbase fought the court's orders and was able to lower the amount of data shared to just the 13,000 customers trading at 20,000 USD. What becomes most problematic to me is what this 'compromise' shows about the IRS and their underlying motives. I argue that IRS's push towards collecting Coinbase user data is not motivated by "integrity and fairness", but instead with the intent of establishing a governing presence in the emerging and

fruitful digital currency market. Coinbase shares my belief saying that they were “extremely concerned with the indiscriminate breadth of the government's request”(Musil). Simply put, the integrity and legitimacy expected by a governing agency, such as the IRS, were not expressed in their interactions with Coinbase. Instead a more suspicious relationship was established in an industry that will continue to grow.

The growth of cryptocurrencies as a whole, particularly Bitcoin, has sparked many to cash in and make their own attempt at striking digital gold. While investing in digital currencies has proven to be a profitable endeavor for investors, the notion of a free and unregulated industry seems to be coming to an end. As popularity and profitability of Bitcoin grew, so did government influence. This can be examined by the IRS and their request for data from 13,000 users of leading cryptocurrency marketplace, Coinbase. Upon initial examination, the IRS's request for user data in order to establish a more comprehensive taxation of cryptocurrency seems like a logical and necessary progression towards legitimizing the industry as a whole. While in reality, the IRS's request for user data is nothing more than an attempt at establishing dominance and reaping the benefits of a previously unregulated industry.

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