
'How to Account for Crypto?': Key Takeaways

Event date: 8 August 2024

Location: Online (Zoom Meeting)

Hosted by: Viktoria Soltesz (Soltesz Institute)



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[Introduction]

'How to Account for Crypto?' was a first-of-its-kind webinar about the challenges and opportunities that Crypto payments can offer for private firms.

Organised by Viktoria Soltesz, the event covered factors to take into account when using Crypto wallets in interaction with conventional financial currencies, existing laws and payment service providers.

This session mostly focused using Crypto services in Europe. Documentation is based on my notes of the presentation, yet without direct quotations. Several slides have been used in support of my notes, copyrights belong to the presenter of these slides as specified. The Q&A at the end of the session documents my question and given answers. This report has been published with the permission given by the organiser.

[I. About Viktoria Soltesz]

- She is the founder of the Soltesz Institute
- Author of the book "Moving Money - How Banks Think"
- She is speaker at international conferences, where businesses are made aware of problems in online payments and banking
- Her experience includes being a former lecturer at the University of West London
- In 2023, she was nominated 'Business Woman of the Year'
- The book starts with a history of banking, then proceeds with: i) The compliance landscape as of today ii) Risks, banking languages, global payment methods iii) Accounting and company setups iv) Technology and Data Security v) The Soltesz Framework
- Currently, no certification for Payment Professionals exists -> The Soltesz Institute tries to solve for this

About me



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transformers-in-action



Three chapters online

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- When working as an auditor in Cyprus, a client had a company that started accepting Crypto as a payment method -> At that time, no regulation existed
- It was hard to pinpoint at the legal characteristics
- One client had a serious problem, not knowing how to account for it
- He wanted to cash out at some point, yet because no regulation existed, the banking could not approve a conversion into fiat currency
- Ignoring the problem will not solve it
- Crypto is one of the many ways to store and exchange value
- So how to declare the fiat volume in bookkeeping?
- The first webinar (today) will discuss how to account for crypto and other alternative asset-classes that are less regulated and more exotic in nature

[II. About Accounting for Crypto]

- Initially (in 2017), Crypto passed through unregulated exchanges
- Lots of exchanges were not accepted by conventional financial actors, for there was a lack of proof for bookkeeping
- Usually, Crypto payments have to be validated independently by a 3rd party
- Many times, these records were lacking
- Taxation issues arise across different jurisdictions -> The auditor needs to check legitimacy based on biased regulatory compliance records, which is difficult
- Auditing difficulties may lead to increased auditing fees

- What are the risks in dealing with Crypto?
- Imagine you have a company and a friend tells you to accept payments in Crypto, and you start to receive unknown wallet payments
- As a company, you are responsible for verifying the legitimacy of the source
- Anti-Money Laundering checks need to be in place
- You can face serious penalties when failing to meet regulatory responsibilities
- With fraud detection, you are - again - responsible as a company
- You need to take into account bank's reactions to crypto payments
- This is especially so for traditional high-street banks, neobanks may be more comfortable with large payments in Crypto
- Bank statement inconsistencies may arise, which can cause problems later in bookkeeping
- This can then also damage banking relationships and lead to freezing of assets, fines, termination of customer relationships etc.

- With regard to regulated and tax deduction, sometimes you can use automatic tax deduction
- Cross-jurisdiction requirements and country-specific regulations may affect your assets in a certain way (e.g you may have a company crypto wallet in Singapore, yet use European Banks that are regulated under MiCA)
- Another factor to consider is the potential withholding of taxes
- Also bear in mind reporting obligations
- Compliance strategies need to be set up

- So what are risks of converting Crypto to fiat currency?
- There are exchange risks -> Financial risks, compliance risks, risks surrounding exchange rates -> Sometimes, a payment provider relies on a heavily unfavourable or completely fictive exchange rate
- Regarding Payment provider relations -> Again, beware of exchange rates and banking fees
- Errors in reporting can result in frozen funds, blocked accounts, closing balances

- With regard to volatility and profit manipulation, sometimes this happens when there is no commonly used exchange rate
- Huge tax evasion risks may exist
- Reporting accuracy matters
- Financial stability will be upheld in the long term if above points are taken into account

- With regard to various taxation rules, there is a capital gains tax
- In case Crypto is defined as a liquid asset, you have to pay corporate tax
- In some countries, there no taxes at all
- Bear in mind country-specific rules
- Tax evasion opportunities may arise -> Make sure the company managing the Crypto wallet is registered in accordance with clear taxation rules

- Mind Crypto bans in relation to international groups of companies
- This is useful in case of capital controls
- Sometimes Crypto assets can be uploaded in clouds to circumvent ban, and state actors may do so, such as China and Lebanon
- International impact -> It can affect a whole group's financials and result in compliance challenges
- Hence, use strategic planning surrounding Crypto suppliers, ownership etc.

[III. Summary]

- Beware of all the risks before making a decision
- Only use Crypto when needed
- Pre-alert the payment team (bank, legal, accountant, tax advisor)
- Do your due diligence on the sender and treat funds like fiat
- Do not assume anything -> Ask for professional advice
- Crypto = Think fiat
- Pay taxes and make sure financial records are impeccable

[IV. Q & A]

Ardi: Which party/who is liable when a used Crypto coin crashes?

Viktoria:

- Normally governments and economies are only held accountable when something goes wrong
- Scams were common before regulation was in place
- Such situations are not very likely now
- Usually law enforcement deals with these issues
- When it comes to Crypto, many times nobody is liable, this will remain a risk

[On a final note]

'How to Account for Crypto?' has covered a broad range of risk factors when using Crypto wallets as a firm. Of particular interest is the cross-jurisdictional aspect of using Crypto wallets, and how its usage heavily depends on where payment providers are stationed. Clearly a lot of the responsibilities using Crypto fall on the firm that uses it, yet if well-managed, the rewards are yours. In a nutshell, consistent legal specification, taxation measures and verification of a firm's track record as well as those of payment providers, is what counts.

For feedback or questions, send an E-mail to quero@discounted-by-a-lightning-strike.com. Thank you for reading!

I have no interests to declare other than my attendance as a Board Member of investment committee Carpe Divitias.