

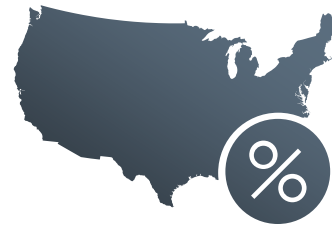
What is so UP with Crypto?

MARCH 13, 2025

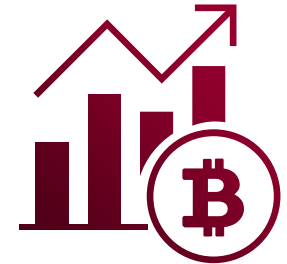
Today's Learning Objectives



Cite which states currently have cryptocurrency provisions in state law



Recognize the current state of sales and use tax as it relates to cryptocurrency and other digital assets



Recall the VAT implications of cryptocurrency and other digital assets and identify how they will affect your business

With You
Today



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Agenda

1	Digital Asset Trends
2	Unclaimed Property 101
3	Understanding Unclaimed Property Enforcement
4	Recent Legislative Changes and Current Market Trends
5	Impact of Unclaimed Property on Cryptocurrency
6	Sales Tax Crypto Update
7	VAT Crypto Update

Digital Asset Trends

Digital Asset Trends Expected in 2025

- ▶ With a pro-cryptocurrency administration, there is hope for increased regulatory guidance
- ▶ Companies adopting digital asset use cases in their business.
- ▶ More businesses accepting digital assets as payment
- ▶ Tokenization of real-world assets
- ▶ More traditional businesses and institutions investing in mining and staking
- ▶ Stablecoins adoption expands globally
- ▶ Increased convergence between AI and crypto projects (including AI agents)
 - Will AI agents be releasing their own tokens?
 - Will AI agents transact with each other using digital assets?
- ▶ Increased token genesis event activity (airdrops, private sales, etc.) due to regulatory clarity



Unclaimed Property 101

UNCLAIMED PROPERTY 101

Sourcing Rules

Abandoned Property should be reported to:

1

First Priority Rule: the state of the rightful owner's last known address

if owner's address is not known, then

2

Second Priority Rule: the holder's state of incorporation has the right to take possession of the funds

Intangible Personal Property for Which There Has Been No Owner Activity for a Specified Period of Time (“Dormancy Period”)

EXAMPLES OF UNCLAIMED PROPERTY

UNCLAIMED PROPERTY INTRODUCTION

What is unclaimed property?



Uncashed or
Voided Payroll or
Commission Checks



Uncashed or
Voided Payable/
Vendor Checks



Gift
Certificates/
Gift Cards



Customer Merchandise
Credits, Layaways,
Deposits, Refunds or
Rebates



Overpayments/
Unidentified
Remittances



Suspense
Accounts



Unused/
Outstanding
Benefits (Non-ERISA)



Miscellaneous
Income/Bad Debt
Expense Accounts

Key Unclaimed Property Concepts



HOLDER

Refers to an entity or individual that possesses or controls property that belongs to another person or business.



DORMANCY

Is the length of time that must pass without any activity or contact from the owner before the property is considered abandoned or unclaimed.



DUE DILIGENCE

Efforts that a holder of unclaimed property must make to locate and notify the rightful owner before the property is reported and remitted to the state.



RUUPA

“Revised Uniform Unclaimed Property Act.” It is a model law created to provide a standardized framework for states to follow in managing unclaimed property.

Understanding Unclaimed Property Enforcement

Who conducts audits?

States historically have conducted audits using both internal and external resources. Below is a list of some the most prominent audit firms conducting review on behalf of many states:

- ▶ Kelmar Associates, LLC
- ▶ Specialty Audit Services
- ▶ Kroll (fka Verus Financial)
- ▶ Treasury Services Group LLC (TSG)
- ▶ Innovative Advocates Group, Inc.
- ▶ Discovery Audit Services
- ▶ Escheatment Expertise Consulting Services (EECS)
- ▶ Faegre, Drinker, Biddle & Reath (FDBR)
- ▶ KDAC LLC
- ▶ Barnes & Thornburg

Who are Voluntary Disclosure Agreement (VDA) administrators?



VDA REVIEW FIRMS:

- ▶ Faegre, Drinker, Biddle & Reath (FDBR)
- ▶ KDAC LLC
- ▶ Barnes & Thornburg

Understanding the Difference Between Types of Outreach

**State Audit Notices
(Third Party)**

**State Audit Notices
(State Employees)**

**Voluntary Disclosure
Invitations**

Self-Audit Notifications

State Questionnaires

Compliance Reminders

UNCLAIMED PROPERTY AUDITS

Types of Audits

GENERAL LEDGER REVIEW

- ▶ Involves a thorough examination of the company's general ledger accounts to identify potential unclaimed property

SECURITIES REVIEW

- ▶ Focused on identifying and managing unclaimed or abandoned securities, such as stocks, bonds, or mutual funds, that a company or financial institution holds

CRYPTOCURRENCY FOCUS

- ▶ Specialized process aimed at identifying and managing unclaimed or abandoned cryptocurrency assets



Roby Smith
Treasurer of State

Capitol Building
1007 E Grand Avenue
Des Moines, IA 50319

December 13, 2024



RE: [REDACTED]

Dear [REDACTED],

The Iowa State Treasurer's Office (the "State") is responsible for administering the Iowa Uniform Disposition of Unclaimed Property Act, § 556 (the "Statute"). In fulfilling this responsibility, audits of business organizations and financial institutions are routinely conducted. This is written notice from the State that an unclaimed property audit of the books and records of the above referenced entity (the "Company") and all relevant subsidiaries and divisions is commencing.

The examination will relate to all general ledger related property with a focus on cryptocurrency accounts that may be subject to be reported and delivered to the State. Please instruct the Company to take appropriate steps to ensure that all records that may be relevant to the examination are being preserved as required under Iowa law and that no relevant records are being destroyed. The State authorizes Kelmar Associates LLC ("Auditor") to act as the agent of the state and to obtain and retain all records necessary to conduct such an examination and directs the Company to provide the information requested on our behalf. All information should be directly provided to the Auditor at its request and without redaction or omission as this information is required by Auditor on behalf of the State to correctly identify unclaimed property held by the Company and re-unite such property with its owners.

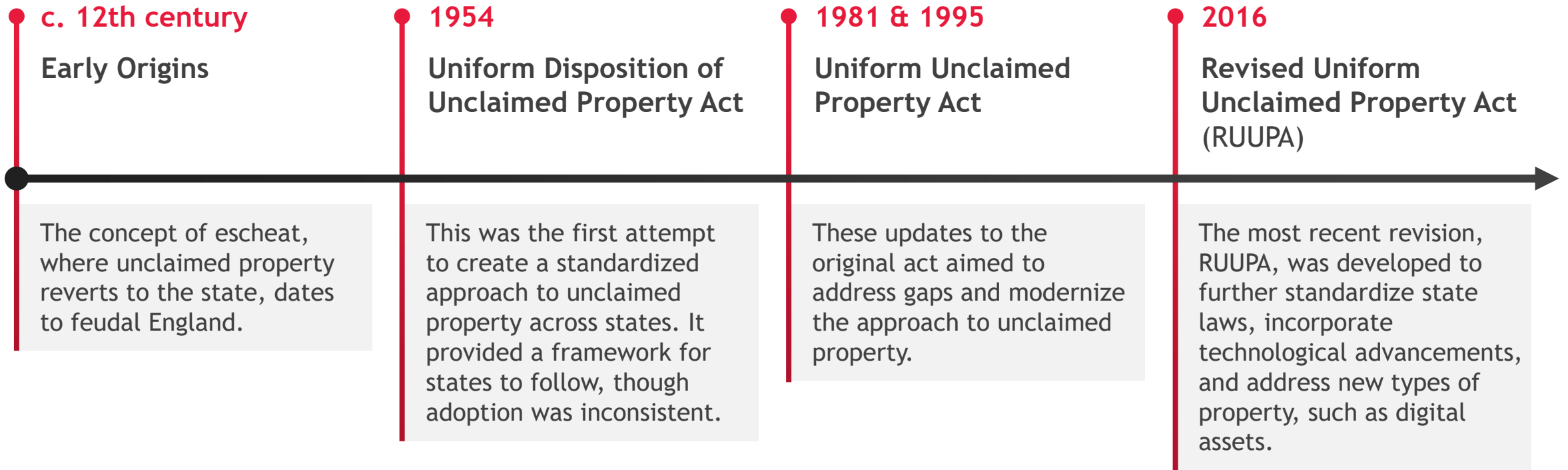
Additionally, please request the Company (from the date of this letter through the date of the final audit report filed by the Auditor) to not report or deliver any past due unclaimed property to the State. Instead pre-submit to the Auditor any annual reports of currently due property prior to the date such reports are due under State law and to then only submit such reports to the State after they have been reviewed by the Auditor for accuracy of the values, owner information, report state and dormancy date. The State reserves the right to impose interest, penalties and examination costs permitted by the Statute. Your cooperation with the Auditor will bear heavily on our decision in the effort.

You will be contacted by the Auditor to provide an initial document request and to arrange a mutually agreed upon date to commence the examination.

Recent Legislative Changes and Current Market Trends

Unclaimed Property Law History

Unclaimed property laws have evolved over time to address the issue of assets that remain unclaimed. Here's a brief history:



Unclaimed Property Law Changes

Certain states have adopted RUUPA language to address digital assets specifically within their UP statutes.

Some of the challenges of these changes include the following:

DEFINITION OF VIRTUAL CURRENCY

- ▶ Many states have adopted provision that have expanded its definition of virtual currency to include any digital unit used as a medium of exchange, unit of account, or store of value, excluding those with legal tender status in the U.S.

LIQUIDATING DIGITAL ASSETS

- ▶ Can be burdensome due to its volatile nature and the potential loss of future value
- ▶ Custodians may face legal and logistical challenges in liquidating assets, especially if contractual terms limit such actions
- ▶ Some states have proposed bills that do not require liquidation before escheat

Unclaimed Property Law Changes

State auditors continue to find new ways to identify unclaimed funds companies may be holding.

Even in situations where digital assets are not specifically defined, UP statutes may still allow auditors to go after digital assets.

DEFINITION OF VIRTUAL CURRENCY UNDER RUUPA

(adopted by many states)

- ▶ “Virtual currency” means a digital representation of value used as a medium of exchange, unit of account, or store of value, which does not have legal tender status recognized by the United States. The term does not include:
 - (A) the software or protocols governing the transfer of the digital representation of value;
 - (B) game-related digital content; or
 - (C) a loyalty card [or gift card].

“CATCH ALL PROVISIONS”

(already in many UP statutes throughout the country)

- ▶ Pennsylvania example from FAQs: Does the state statute have specific provisions related to digital assets?
 - The State statute does not explicitly mention digital assets. However, the reporting requirements might apply to digital assets if they fall under categories like securities or other financial instruments. For precise details, reviewing the Disposition of Abandoned and Unclaimed Property Act (DAUPA) directly or consulting with the Pennsylvania Treasury would be advisable.

Impact of Unclaimed Property on Cryptocurrency

Crypto Exchanges

WHAT IS A CRYPTO EXCHANGE?

- ▶ A platform where users can buy, sell, and trade crypto currencies
- ▶ Centralized Exchange (CEX): a type of cryptocurrency exchange that operates as a third-party intermediary between buyers and sellers (e.g., Coinbase)

REGULATORY IMPLICATIONS

- ▶ Crypto exchanges may be required to report unclaimed assets to state authorities
- ▶ Compliance with state unclaimed property laws can vary

CHALLENGES FOR CRYPTO EXCHANGES

- ▶ Identifying and tracking unclaimed cryptocurrency assets
- ▶ Complexity due to the decentralized and anonymous nature of cryptocurrencies

BEST PRACTICES FOR EXCHANGES

- ▶ Implementing systems to notify users of inactive accounts
- ▶ Developing clear policies for handling unclaimed property

Non-Fungible Tokens (NFTs)

WHAT IS AN NFT?

- ▶ An NFT is a unique digital asset that represents ownership of a specific item or piece of content, such as art, music, or real estate, on a blockchain
- ▶ Unlike cryptocurrencies, NFTs are not interchangeable due to their unique properties

NFTs AS UNCLAIMED PROPERTY

- ▶ NFTs can become unclaimed if owners lose access or forget about them
- ▶ Challenges arise in tracking ownership due to decentralized nature

CHALLENGES FOR NFT MARKETPLACES

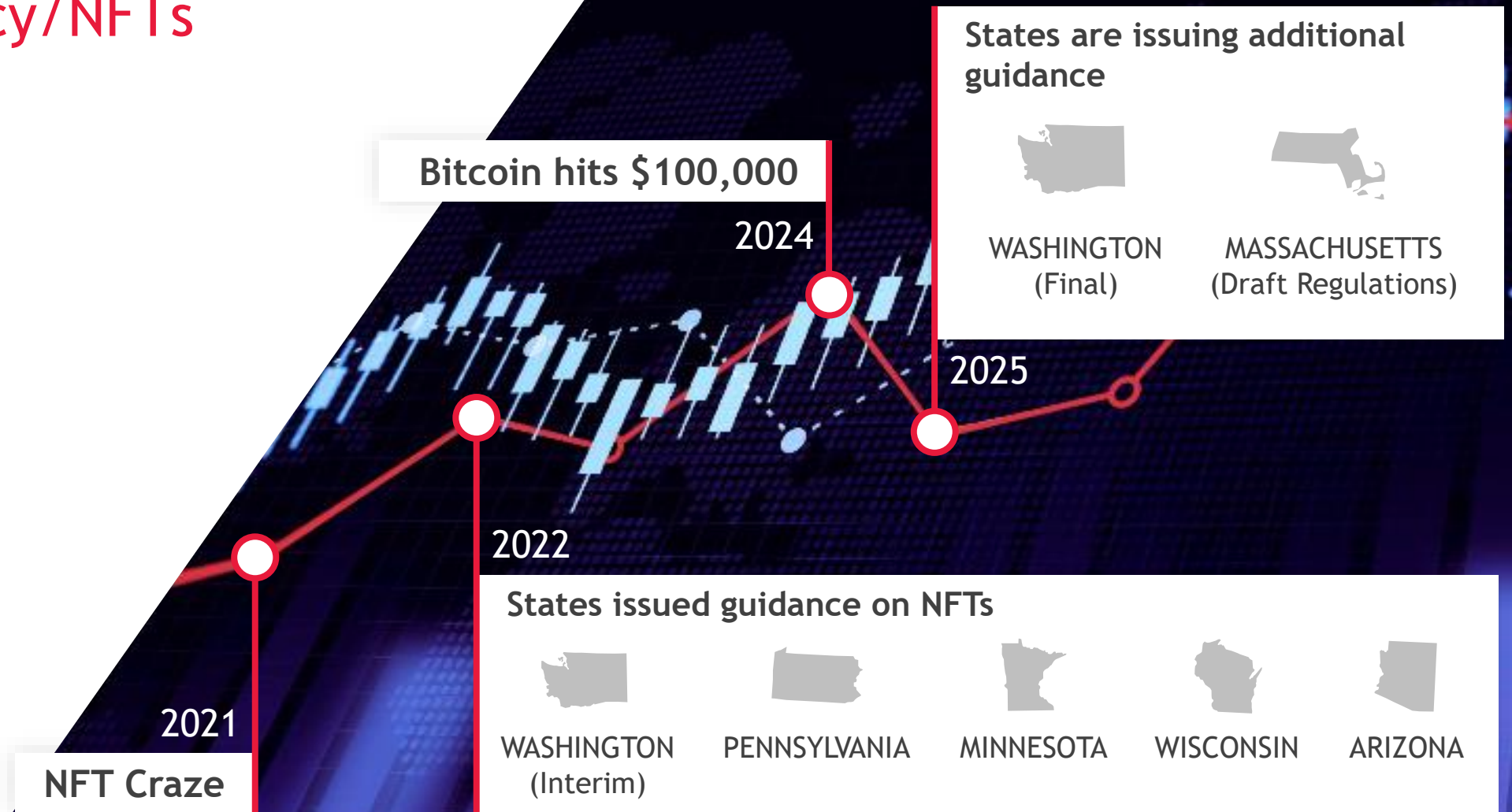
- ▶ Identifying unclaimed NFTs and notifying owners
- ▶ Developing systems to manage and report unclaimed digital assets

BEST PRACTICES FOR NFT MARKETPLACES

- ▶ Implementing alerts for inactivity
- ▶ Educating users on managing and securing their NFTs

Sales Tax Crypto Update

History of Sales Tax and Cryptocurrency/NFTs



Current State of Sales and Use Tax

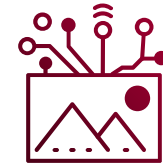
RELATED TO CRYPTOCURRENCY AND OTHER DIGITAL ASSETS



Exchanges



U.S. Lab Companies
(Protocols)



NFT Creators



Marketplaces



Mining



Web3
(Gaming, Fintech, Retail, etc.)

Sales and Use Tax Updates

► Guidance

- Taxability
- Sourcing

► Sales and Use Tax Exemptions

- Data Center
- Electricity
- Manufacturing
- Digital Asset Mining Equipment
- High Technology Computer Equipment



VAT Crypto Update

Brief History of VAT and Crypto

EVOLVING REGULATORY APPROACHES

- ▶ Initial uncertainty
 - Lack of clear guidance = varied interpretations and application of VAT

KEY RULINGS AND GUIDANCE

- ▶ European Union (EU)
 - Hedqvist Case (2015)
 - Bitcoin transactions should be exempt from VAT (similar to traditional currency transactions)
 - Set precedent for treating crypto as a means of payment (not goods or services)
- ▶ Australia
 - Initially treated crypto as taxable supplies
 - 2017 amended law to treat crypto similarly to money
 - Exempt when used as payment

GLOBAL VARIATIONS

- ▶ Different approaches adopted = inconsistencies and complications
 - Commodities vs. financial instruments vs. currency vs. intangible assets
- ▶ Categorization difficulties within existing frameworks

VAT in the Crypto World

	NFT CREATORS	CRYPTO MINERS	WEB3 (Gaming, Fintech, Retail, etc.)
CURRENT ISSUES	<p>Classification of NFTs for VAT purposes</p> <p>Jurisdictional challenges in cross-border sales</p>	<p>VAT treatment of mining activities (personal mining vs. mining for third parties)</p> <p>Input VAT recovery challenges</p>	<p>VAT on Web 3 services</p> <p>Cross-border service challenges</p>
OPPORTUNITIES	<p>Potential for VAT exemptions or reduced rates</p> <p>Structuring sales to optimize VAT treatment</p>	<p>Efficient structuring of mining operations</p> <p>VAT recovery opportunities (some jurisdictions)</p>	<p>Structuring fintech services for optimal VAT outcomes</p> <p>Exploring VAT exemptions for financial services</p>

VAT in the Crypto World

	MARKETPLACES	TOKEN GENESIS	STABLECOIN
CURRENT ISSUES	<p>VAT obligations for crypto marketplaces</p> <p>Handling vat on cross-border transactions</p>	<p>VAT treatment of token issuance</p> <p>Challenges in determining the taxable event</p>	<p>Classification of stablecoins for VAT purposes</p> <p>VAT on transactions involving stablecoins</p>
OPPORTUNITIES	<p>Implementing VAT-compliant marketplace structures</p> <p>Leveraging technology for vat reporting and technology</p>	<p>Structuring token sales for VAT efficiency</p> <p>Exploring VAT exemptions for initial token offerings</p>	<p>Structuring stablecoin transactions to minimize VAT</p> <p>Potential for VAT exemptions similar to traditional currencies</p>

Key Takeaways



Early intervention can be key for addressing complex issues



Structure transactions carefully to minimize VAT liabilities and ensure compliance



Optimize VAT strategies by staying informed about regulatory changes and leveraging experienced guidance

Thank you!





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