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What is Cryptocurrency?



Cryptocurrency. Bitcoin. Blockchain. Mining. You've probably heard all of these terms and may even have a vague understanding of what they mean.

But there's much more to cryptocurrency than the popular buzzwords that are thrown around by internet laymen. Whether you're interested in investing in cryptocurrency or just want a better understanding of how it works, this guide should help break down the essentials for you.



What is Cryptocurrency?

There is a simple definition of cryptocurrency. There is also a much more complex definition. For our purposes, let's start with the simple definition:

Cryptocurrency is a type of asset that is obtained and/or traded for goods or services via the internet. Cryptocurrency is not a physical asset. It is obtained, stored, and utilized via digital transactions only. In its simplest definition, cryptocurrency functions as internet cash.



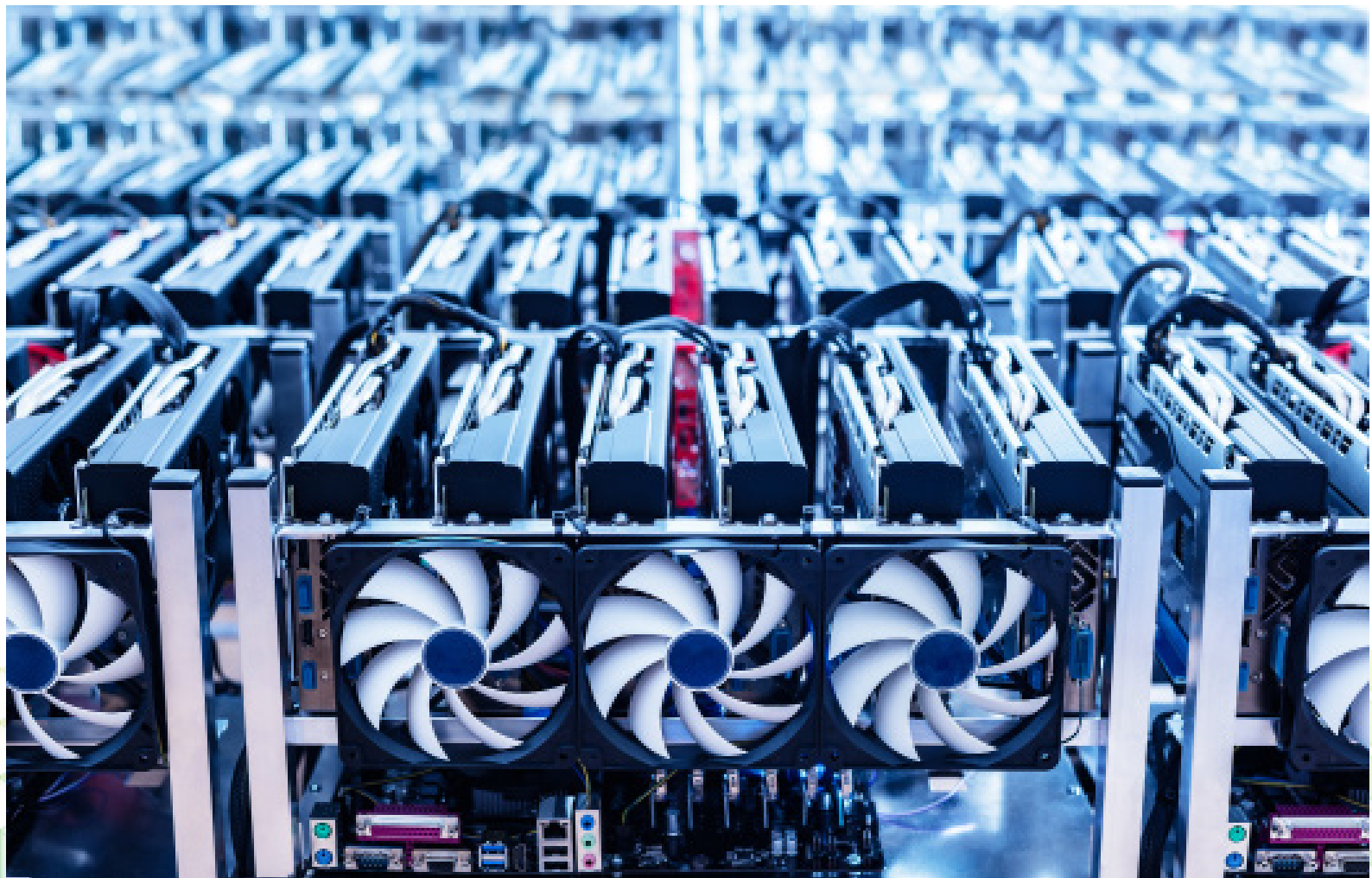


Who makes Cryptocurrency?

Cryptocurrency isn't made or controlled by a central authority. This simply means that the government and financial institutions aren't involved in the creation or regulation of cryptocurrency.

Instead, cryptocurrency is created, traded, and controlled by its users. Because cryptocurrency requires a consensus to function properly, all users must agree before significant changes are made to the software or functionality of cryptocurrency.

New cryptocurrencies are created through a process called "mining". This process is performed by individual users who utilize specialized hardware and follow consensus rules to record transactions and keep the cryptocurrency software secure. In exchange for their time and effort, the miners are rewarded with cryptocurrency.





How do you obtain Cryptocurrency?

Cryptocurrency transactions are processed via blockchain technology. Put simply, the blockchain functions as a general ledger that permanently stores every single cryptocurrency transaction. Every user has access to the blockchain.

You generally can't purchase cryptocurrency directly through the blockchain with standard forms of currency, such as credit cards or payment processing applications like Paypal. This is mostly because these types of payments can be reversed (e.g. a "chargeback"), which makes them unsecure. Instead, you can obtain cryptocurrency via a cryptocurrency exchange. You may also receive cryptocurrency as a form of payment or even mine your own.

It's also worth noting that these transactions generally aren't as complicated as they sound. There are many cryptocurrency apps available. When using your cryptocurrency, you will likely use a simple app interface called a "wallet," which will show your incoming and outgoing cryptocurrency transactions.

What types of Cryptocurrency are available?

There are many different types of cryptocurrency available – literally thousands, in fact. However, bitcoin was the first decentralized cryptocurrency available, and it's easily the most popular cryptocurrency in use today. Other types of cryptocurrency are called "altcoins." Some of the most popular are Ether, Dash, and Litecoin.





What are the benefits of Cryptocurrency?

While cryptocurrency is a rapidly growing form of currency, there are still numerous risks involved. First, though, let's look at the benefits. What makes cryptocurrency appealing to so many individuals and businesses?

- **Flexibility:** You can perform cryptocurrency transactions anywhere, anytime. It's truly a peer-to-peer network, so there's no government red tape or banking regulations to consider.
- **Low/No Fees:** You aren't charged a fee when you receive cryptocurrency. You may be charged a fee to send it, but these fees are generally much lower than those of standard payment processors like Paypal.
- **Security:** Due to the technology used for cryptocurrency, transactions are usually quite secure. While transactions aren't completely anonymous, they also aren't linked to your personal data (such as your physical address) like most credit card transactions. In other words, sweeping personal data breaches that affect millions of people aren't usually a concern.





What are the downsides of Cryptocurrency?

Now that you've seen the advantages, you should also consider the downsides of cryptocurrency.

- **Low rate of acceptance:** Though it's becoming more and more popular, cryptocurrency still isn't widely accepted, especially by merchants. This obviously makes it more difficult to use when conducting day-to-day affairs.
- **Volatile market:** The value of bitcoins and other forms of cryptocurrency rises and falls on a day-to-day basis. This is mostly due to the novelty of the currency, which may dissipate as it becomes more widely accepted.
- **Lack of consumer protection:** Though many people would argue that a lack of government regulation is a good thing, others are wary of any currency that lacks consumer protection. While cryptocurrency has proven quite secure thus far, users perform transactions at their own risk.



Is Cryptocurrency taxable?

Yes, cryptocurrency is taxable. However, IRS requirements state that virtual currency be treated as property. This makes the rules a bit more complicated, and you should keep thorough records of all cryptocurrency transactions so that gains and losses are reported accurately.



Final Thoughts

Most experts consider cryptocurrencies too volatile and new to be considered a dependable investment opportunity. However, that hasn't stopped many users from jumping on board the bitcoin bandwagon. It's quite possible that bitcoin and other forms of cryptocurrency will become mainstream forms of currency in the future.

However, no one can predict the outcome with an amount of certainty. It's also possible that cryptocurrency will collapse entirely, leaving bitcoins and altcoins virtually worthless. Whether you're considering cryptocurrency investments or need assistance with tax preparation, please give our office a call. We would be happy to offer our professional assistance and expert guidance.



About us

At Raven A. Herron & Company we perform many different types of accounting and tax services to meet the needs of both individuals and business owners. We understand the importance of having a well organized, knowledgeable team guide you through the ever-changing economic landscape.

Our team of professionals have become known for providing expert analysis and excellent customer service. Additionally, our service offerings are supported by the industry's latest technologies, providing more customized services and giving you greater access to the pertinent financial information you need to make well-informed decisions.

Contact Raven A. Herron & Company whenever you find you need more than just an accountant, but a partner who takes pride in watching you succeed.



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