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Emerging trends: Blockchain and digital assets

Tax insights and actions

Blockchain and digital assets are hitting new levels of maturity, impacting all industry segments. Use cases are inspired by crypto startups and mature-state enterprises across permissioned and decentralized protocols.

5 insights you should know

1. **New money.** Many customers are increasingly interested in using digital assets in normal commercial activities and across platforms. They are seeing the value of implied ownership rights that are portable outside of a controlled instance. Taxpayers and tax authorities are trying to determine the tax treatment of the property and the transaction, since there is little authoritative guidance on point.
2. **New transactions.** Digital rights management and smart contracts are two prominent use cases for Blockchain technology. Efficiency and transparency are created whereby the legal contracts are linked to an ERP system and the system uses programmable money, interacting with smart contracts to redeploy funds with full visibility in real time. This requires tax practitioners to examine the technology of the transaction flow, the legal construct, and the relationships of each stakeholder to determine the correct tax treatment.
3. **Global complexities.** Digital asset-based transactions don’t have authoritative tax guidance that is on point. Digital assets raise unique considerations around revenue recognition, character, and sourcing of the transaction for tax purposes, which should be analyzed using analogous rules and tax cases.
4. **Evolving requirements.** Use case applications, business transactions, and regulations are evolving. What may be a data point or construct today may change tomorrow.
5. **Modernizing tools.** Many ERP systems are not designed to capture, track, and report the information related to digital asset-based transactions. It is increasingly common to implement crypto-native software tools, customized to the enterprise and integrated with ERP.

5 actions to take now

1. **Planning and modeling.** Taxpayers should work closely with the business development team to understand the nature and flow of transactions. Early identification of tax impacts can save time and costly rework.
2. **Analysis and documentation.** Taxpayers should document positions thoughtfully and thoroughly. Make sure to test all analogies against the relevance to the current transactions and the intent of the regulators. Taxpayers need to document the transactions at a given point of time and justify each decision. The original interpretation may be audited for either financial statement or tax purposes down the road.
3. **Analyze guidance.** Once new business models/transactions are identified, taxpayers should analyze the guidance in each relevant jurisdiction to determine taxability. Until there is specific authoritative guidance for digital assets, the industry will be relying on analogies to old rules and case law.
4. **Substance and form.** Taxpayers should understand the complete transaction flow and the legal contracts supporting the transactions.
5. **Identify and remediate ERP system gaps.** Taxpayers should identify data and reporting requirements for appropriate tax computations and compliance. Once requirements are understood, enterprises should evaluate gaps in data and remediate their ERP system data needs. This is one of the most important steps in planning any business model change.

TMT + Tax series

Tax planning for emerging trends

Digital trends are impacting every industry. Regardless of vertical, every company is now a tech company. Whether you're modernizing IT, moving to the cloud, exploring blockchain, or expanding into the metaverse, technology creates exciting opportunities, and raises critical questions. Technological advances are outpacing guidance from regulators and tax authorities, and challenge even the most advanced companies. Deloitte's TMT + Tax series applies a tax lens to emerging trends to help you identify potential benefits as technologies evolve, while preparing for tax and regulatory developments.

Emerging trends

- SaaS and XaaS
- Digital Platform Companies (DPCs)
- Metaverse and shoppable media
- Semiconductor and digital infrastructure
- Blockchain and digital assets

Business imperatives

- Anticipate marketplace and supply chain shifts
- Know your products
- Know your customers
- Keep up with evolving guidance and compliance requirements
- Document the right data elements at the right level of granularity

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