131 TRG Transcript

Mike Stohler

What if you could be doing something smarter with your money that creates income. Now, if you're wanting to get ahead financially, and enjoy greater freedom of choice, if you want a comfortable retirement, and you know you'll have more choices, if you can do more with your money. Now, if you've wondered who else is creating ways to make their money work for them, and you want actionable ideas, with honest pros and cons, and no fluff. Welcome to the richer geek podcast. Where you here helping people find creative ways to build wealth and financial freedom. I'm Mike Stohler, and in this podcast, you'll hear from others who are already doing these things, and learn how you can too.

Hello, everyone. This is Mike Stohler, your host of the richer geek podcast. As many of you know, I have owned or managed over 1500 doors from single family homes, multifamily, and hotels. I've received so many questions about how I transitioned from multifamily to hotels. I've been featured on some of the our nation's largest podcasts. I've spoken at national conferences about hotel investing. How do you do it? What are the differences between multifamily and hotel investing? What about franchises? What did I learn during COVID? Well, ladies and gentlemen, I'm excited to announce that we'll be having a hotel investor workshop on May 5, and sixth of 2023. If you're interested in hotel investing, please come join us. You can sign up on our website, the richer geek.com. Go to the bottom of the page and click on training. I'm hoping to see you all there.

Hey, everybody, welcome back to another episode of the richer geek Podcast. Today, I'm happy to have Mike Aframe. Mike is a crypto and NFT obsessed CPA. We need some of those, especially in today's world of non regulation, I should say. But he's also a best selling author. And featured in NASDAQ Forbes and money. How're you doing Micah

Micah Fraim

doing good, man. Thanks for having me.

Mike Stohler

Absolutely. So, you know, half of us have no idea what crypto and NF T's are, you know, we've had some people. Previous guests that have tried to explain it, but you're the first person that's going to talk about tax planning and how CPAs Look at this. So give us a little bit about your background and how you got so obsessed with NF T's and crypto.

Micah Fraim

Yeah, so I'm a CPA, we mostly specialize in tax planning. Historically, it's been for online businesses or other businesses that are really growth centric and have rapidly changing situations because that's where we can provide the most value. Also, I get bored pretty easily. So the people who have ever changing situations just keep it interesting. And partially as a consequence of a lot of our clients being online businesses and a little more tech forward. They were they've been interested in crypto and we'd get questions. And then I got really involved in it a few years ago, and there's the I bought a little bit of crypto in 2017, like everybody did, and the money that the three grand I put in turned into one grand really fast, and I just mostly forgot about it. And then 2020 rolls around and a client told me two things happen. One, the market recovered.

And that three grant that one Grant had turned back into like somewhere between six or nine grand. So made me and at that same time I had a conversation with a client who told me about a crypto project they were involved in. It was the first time I actually understood the use case for a specific crypto project. Because up until that point, I understood that smart people had said hey, blockchain technology is a huge thing. This is really important. I understood that intelligent people said it was important, but I didn't understand why each specific crypto project would have value. I was like, okay, blockchain has value but why does this token have value? Anyway, that project was the first time that it kind of the use case clicked for me. So I got involved in it really just as an investor and got deeper and deeper into it. And very quickly realized there was next to no tax guidance out there. So we started having having to invest it just for our own taxes. We started having to investigate pretty heavily because the IRS has issued very little guidance and there's very few CPAs and Tax Attorneys who specialize in this right now at least.

Mike Stohler

Now, what are you seeing? Is crypto tax like a stock? Or is it taxed more like a, like gold or silver?

Micah Fraim

Well, it really depends on what type of crypto you're talking about. And it also depends on how you're earning the money. Because if you're just if we're going to sort of like, super super basics, right now, at least crypto is considered property by the IRS not a security. So that has some benefits and some doubt downsides. One of the benefits of it is that it's not subject to the wash sale rules, because it's not a registered security. So the way wash sale rules is that if you buy Apple stock, and it goes down in value, and you sell it, you can't buy it back for at least 30 days, because otherwise, they're gonna say, Okay, you didn't really sell the stock, you just executed this trade, to get to realize the loss on your tax return, they disallowed Well, since Kryptos, not a stock right now at least, you don't have that limitation. So you can sell it if, if you've got your crypto portfolio and you're holding it at a loss, which a lot of people are right now. Because the markets in the toilet, you can you can sell your Bitcoin Aetherium, eight or whatever, and then buy it back later that day, and you still are realizing that loss. So for regular crypto transactions, like if you're just trading tokens, that's regular capital gains, like anything else, except you don't have that wash sale limitation. But where the IRS is running into a lot of issues is that since this is such an emergent technology is there's all there's there's new protocols and new ways that these projects are being created and different use cases all the time. And they haven't addressed the vast majority of them.

So most of the new protocols now are what they called Proof of stake versus Bitcoin. And up until probably a week ago, Aetherium was they're both what they called proof of work. So they're staking now, which is your you're sending your tokens to a pool and you receive essentially dividends back as a reward. That's what most of the new tokens are. The IRS has not issued any guidance on staking. They haven't NF T's they've issued zero guidance on NF T's at this point. They haven't issued guidance on what they call liquidity pools, like the only things they've actually issued guidance on, it's I think you can count on one hand, they've said coin for coin trades are taxable. That's easy. They've said that mine income is business income.

So if you set up a mining rig and you earn Bitcoin or whatever from it, you treat that the same as you would if you went out and started mowing lawns for for your neighbors. They've said you don't have to do foreign bank account reporting on your crypto wallets. They've said you can't do 1031 Like kind exchanges. And they're said the airdrops and hard forks are taxable income. And that's it. So it's, if you're, if you're involved in crypto at all, you realize that there's new projects and types of projects that are coming out all the time. And the IRS is years and years behind on issuing any sort of guidance on the vast majority of them.

Mike Stohler

So what are you doing as a CPA? Where I dealing and trading crypto or NFT? And things come up? Are you just me? I don't want say you're guessing but you know, because there's no regulations. But you know, is this something that I could have something happen? You guys do the taxes, and then all of a sudden, whoever's in charge, IRS or whoever in Washington says, Hey, wait a minute. This was supposed to happen? Are you going to be seeing like a lot of refiling? You think?

Micah Fraim

I'm not going to be surprised at all that if that happens, I think the main thing for taxpayers is just for reporting the income and doing your best job of trying to account for it properly. Because if you do that, given the complete lack of guidance, if the IRS at least sees that you're trying to do it correctly, you should be they should be reasonably merciful. If you do end up getting it wrong or right, or the regulations change, where people are running into a lot of issues, especially the sort of like crypt the stereotypical crypto bros out there. They don't want to report any of it. There's a subset of crypto zealots who say, No, the government doesn't need to know about this.

They can't track it. It's a bunch of nonsense. But for those people, they're going to get absolutely destroyed as the IRS gets either more guidance from Congress or comes out with their own guidance. The the AI they're using to kind of track people down to look for discrepancies from what they expect. They're increasingly going to the centralized exchanges and telling them to get access to their customer data in those transactions. More and more of the people who are kind of skirting the law, are just going to get destroyed as the IRS find, gathers more and more of this information, and then focuses that towards enforcement.

Mike Stohler

And there's, you're saying that, no, when when the IRS goes to these companies, can they be like Apple and say, No, we're not going to give you this person's data? Or they're going to be kind of forced to say, Okay, well, here's our database. How do you see that?

Micah Fraim

Typically, they've been forced. There's one lawsuit, I can't remember the name of the company, I think it's like s Fox or something like that, where they've been grant that it was either the IRS or the SEC that got granted access to the customer day they were requesting Coinbase, a few years ago, I was compelled to anyone, I think the IRS requested anyone who had over like, $20,000 of transactions for that year, that they had to turn all that over. And then they sent out letters to all this taxpayer saying, Hey, we think you had crypto activity you didn't report, we need you to report it.

So with all of that in mind that the IRS is getting better and better all the time at tracking this, the biggest thing is to report the income, where we come in and where we are trying to mitigate that tax bill as much as possible is based on two things. One is that we try and since there's no guidance out there, we try to find something that's analogous within established tax law for securities and traditional investing, or business because that's usually the two buckets that the income will fall into. So we try and find based on established case law, something that we can tie that to saying, Okay, you haven't issued guidance on NF T's or you haven't issued guidance on nodes. But based on the guidance you have for this thing, this is what we think is a reasonable and appropriate tax treatment. And then based on whatever bucket that falls into, then we structure and do regular tax planning the same way we would with those other categories of income.

Mike Stohler

Now, how about the is that the same thing with all the Oh, the you know, the game and your rewards and all that sort of stuff? Oh, well, they called played earn? Yeah.

Micah Fraim

Yeah. So yeah, that's going to be the same thing. The IRS has not issued any explicit guidance on that. So what do we look at, we look at regular games. So if you're, if you're playing a game, there's there's a couple of different ways that that could be taxed. It could just be hobby income, where you go and on the weekend, you play in a tournament and you earn 25 bucks or something if you place, or you could be professional ass athlete, you could be a Twitch streamer who happens to just play games, there's different. So if it's hobby income that falls into its own bucket and has its own rules. The the good part of hobby income is that it's not earned income. So it's not subject to Social Security and Medicare. The downside is that if you have any expenses within that game associated with earning those tokens in the play to earn game, you have, you're not allowed to write off expenses for your hobby income.

So depending on the scope of your activity, that could really bite you in the butt where you might have $10,000 worth of, of play to earn rewards. But you spent 9000 of that just reinvesting it back in the game. So that's the first thing we start off with is is a business is it hobby income, a lot of times because people are for good or bad are using these as investment vehicles, a lot of times, it does make sense and it is more appropriate to treat it as business income. And when it's business income, then we start to look at again, the same thing as we would with regular businesses, to see whether or not makes sense to set it up in some sort of LLC or corporation to have it elect S corp or C Corp status.

We look at what expenses are available time and your transactions, all that kind of stuff. So that's the first place we start. One of the things we do warn people with on Play to earn games is that at least right now, every play to earn game that I've seen or almost every player in game that I've seen, they'll have have these big big spikes in value and people get in real, they call them sort of unintentional Ponzi schemes sometimes, because people buy the NF T's or buy the game items for really cheap, earn money, and then all of a sudden the token explodes, and people will be earning stupid amounts of money every day just for playing this game, which attracts it has a snowball effect and attracts more and more people to play the game. And eventually, people stop reinvesting or they start cashing out or whatever, and the game economy just tanks. So far, most of the projects we've looked at have had like a 90 to 99% drop from their peak token price. So what we tell people with any type of crypto activity, but especially these play to earn games, is that as you're realizing this income when you're having taxable events be that the player earn rewards being deposited, mining income, node income, executing trades, getting staking rewards, whatever, you'd need to cash out a certain percentage of that and set it aside in cash. So that you're not getting hit really hard when tax time comes.

Because what will happen is the IRS is looking at the value of the token when you received it. So one game out there is it's called steppin. And it's pretty cool. It's a GPS tracking on walking. So they'll reward you for for walking, it'll give you a little bit of crypto every day if you if you walk. I've seen people who I can't remember the exact token price, but some people were making like $500 a day playing that. But how the token price has gone down. I think that's now closer to like $20 a day. So what you can run into, I'm kind of rambling here, but you can do it to where you're earning $500 And that's a taxable, then you earn $500 $500 $500. And that is taxable as of the price that was at that date. But if you don't cash out, and you wait until April 15 comes, you can have it to where that your portfolio is worth 1% of what it was, but you still have so you don't have any money to pay the tax bill, but you've still got all this income that you have to report.

Mike Stohler

Yeah, it seems like especially with a lot of the younger people that are playing these games, that there's you know, a lot of education that needs to be pot for them because they're just having fun and playing and thinking oh, wow, I'm an overnight millionaire all of a sudden, and then the joke a no, I'm not worth anything. And then they can really get in trouble come tax time. You know, I can see that in you know, it's a great thing you guys you're doing now, here's another thing Now what if I pay stuff? You know, they have these credit cards that I'm getting advertisements for and things like that, or crypto or anything, you know, how do those things work and taxes and I mean, just even tax the credit card.

Micah Fraim

Well, that's that's part of the credit cards are a little there's only a few actual crypto credit cards out there. So if it's an actual credit, I guess I'll start with a debit card. Because a debit card. They most of those right now are funding like typical prepaid debit card. So instead of loading cash onto the card, you're loading your crypto. And then every time you swipe, you're spending your crypto. The problem is that at least as the law stands now, every time you swipe that card, that's a disposition of an asset. And you've either got a capital gain or a capital loss, which is an absolute logistical nightmare to track, your holding period, your cost basis, all of that, especially when you're just going to Starbucks for a cup of coffee or something. I mean, it's it's brutal. There was some proposed legislation, I don't think has moved anywhere yet, where Congress, they were talking about doing it to where if the transaction was under $200, it would be exempt from that reporting, which I think is a is a great thing.

The thing I've said is that they're going to need to put something in there to look at the aggregate number of transactions in in a certain time period. Because otherwise, you're gonna have people who are doing 1000 $199 transactions just crypto and avoid the capital gains. Exactly. So so that's a debit cards, credit cards, just the way they work from an accounting standpoint is that that's not really the disposition of an asset. That's just racking up a liability. So most of the crypto credit cards, you're not actually spending your crypto, you're just accruing a liability and they're paying you and crypto rewards instead of points or cashback. So crypto credit cards, at least as they stand now don't have that same issue but there's just not that many of them. And,

Mike Stohler

yeah, it's interesting that they might say, Well, you can't you don't have to report $200 But everything else, you know, it's like, you know, I know that this whole $600 thing is coming around with with regular funds you know, with banks and and all that sort of stuff. So it's gonna be interesting to see all the different reportings and and all the different. It just to me, it sounds like a nightmare. Well, number one, I don't know what crypto is. And just bunch of ones and zeros and doing something I don't know. But let's talk about you have a couple books. Tell me a little bit about the little big small business book.

Micah Fraim

Yeah, so we actually after it happened a little bit after we booked this with you, we actually published another book and it's specific to crypto taxes. So we've got it's called decrypting crypto taxes. And the the audiobook version and the print version are obviously paid. But we got them for for the ebook version we've listed for free on Amazon and most other major retailers. So with that one, what the Little Big, small business book that was just general tax and finance and business lessons that we had, and it was mostly tied to some kind of example in popular culture, decrypt and crypto taxes. We kind of designed that justice that the FAQs that we would typically get for for the questions we were getting from clients where they say, I've got this kind of income, how is that taxed?

So that's how the chapters are designed. Most of them are just framed as questions of how is my note income taxed? How are airdrops taxed? How are how are these different things tax, and then we give advice on how to try to plan and structure around that income based on the regulations as as they exist. Now,

Mike Stohler

what are you seeing? You know, we're in this bear market. They're calling this the crypto winter, you know, you know, there's a couple of things. What are some of the things that you have to really be careful with, for when we come next and the next Bull Run, which gotta hope it's, you know, sometimes so who knows? Maybe after November, you know, sometimes, depending on which way anything goes, things go up and down. And, you know, the wars and all that sort of stuff. But what are some of the some of the advice you can tell us about when that next Bull Run comes and watching your taxes? And,

Micah Fraim

yeah, so during the crypto winter that we're in right now, there's, there's two main things that we'll talk about with people for things I can do right now. One is tax loss harvesting, because again, there's no wash sale rules. So if you've got a portfolio that's underwater, if the loss is at all substantial, that makes a lot, it makes a lot of sense to go ahead and execute those trades and realize those losses, so that when the market does turn around, you've got those just held there waiting to be used for when you do have a gain, versus them just being you know, every time then you start executing trades for profit, you're having to pay tax on them. So we're banking, those losses.

The other thing we're talking about, and you don't always have a choice on this, but certain types of crypto income, you've got a little bit more control over the timing of when the transaction will hit. And then when the income is realized, and you have to report it. Normally, when you're in a bull market, you're doing everything you can to defer that income, because you're already making a bunch of money. The last thing you want us to tack on more. So you're trying to push that into a future year. But while we're in this bear market, we're kind of depending on the type of projects it can and your overall income, it can make sense to go ahead and take the hit now and real and realize some of those transactions. When you're in a lower income year.

Get the whole depending on how you're acquiring the token, get your holding period started for capital gains purposes, stuff like that. So that's another thing we're doing during this, this bear market is actually accelerating your income while your income is otherwise depressed. When the market turns around, it sounds basic, but the biggest. The biggest things we talk about are actually tracking and doing tax planning throughout the year because this is true for crypto, it's true for most types of tax planning. Once the year closes, we lose about 90% of our flexibility. When the year is going on. We've got a lot that we can do to maneuver and try to mitigate your tax bill. But once January hits that that book is mostly closed and we don't have a lot we can do So make sure make sure your tack, you're, you're tracking it and doing planning on that income. And the other big thing is just making sure that you're taking profits as you go and at least enough to pay the tax that your tax bill that you're generating. Because a lot of the people that we've been having coming to us this year, had fantastic 2020 ones, that people who are making six, seven figures doing astoundingly well.

But a lot of them did not cash out for the at all, they just kept reinvesting in the market, and then the market crashes. So we've had people with high six figure tax bills, but because they kept reinvesting in the market, they're either they either just don't have the money at all, because it was in some altcoin project that went down 90%, or they're going to have to pay their tax bill, they're going to have to liquidate a large portion of their portfolio. Versus if every time they got income from a trade or otherwise, they said, Okay, I'm going to set I'm going to cash out 40% of this and shove it into a savings account. That's the people we're talking to who are running into the biggest issues are ones who just didn't do that. And that's a very basic, basic step. But it's one that gets done a lot less than you think it would, because people love crypto so much, it's always going to go up always gonna go up that they don't want to cash out but we're seeing the consequences of that. These big ebbs and flows you have.

Mike Stohler

Yeah, it's interesting. That's that's where it's a little bit different in the, from the market, and where I just keep buying and buying and buying and just build a portfolio. It's very interesting, Mike, I appreciate you coming on. And everybody, it's, you know, we've had a lot of crypto people on but this is the first time that we've got to talk to a CPA that specializes in it. If our listeners are wanting to find you, Mike, where can they find you?

Micah Fraim

Easiest way is gonna go to our website, which is crypto tax cpa.com. And we've got some FAQs, general guidance on there. And then obviously just a contact form if you're wanting to talk to us personally.

Mike Stohler

Sounds great. Well, Mike, thank you very much for coming on the richer geek podcast. Have a great afternoon. Thanks for tuning in to the richer geek podcast, where we're helping others find creative ways to build wealth, and financial freedom. For today's show notes, including all the links and resources from our show, and more information about our guests, visit us at www. V Richard kake.com/podcast. And don't forget to jump over to Apple podcasts, Google Play Stitcher, or wherever you get your podcasts and hit the subscribe button. Share with others who could benefit from listening and leave a rating and review to get the podcast in front of your eyes. I appreciate you and thanks for listening