Blockchain Faces Taxing Times

There's been no ignoring Bitcoin's eye-popping, and widely reported, spike in value. As of January, it had increased more than 1,000 percent in a year's time.

But even if the bubble bursts tomorrow, state lawmakers are responding with legislation to regulate digital currencies and blockchain, the technology that allows Bitcoin and other cryptocurrency systems to function.

Eight states—Alabama, Connecticut, Georgia, New Hampshire, North Carolina, Pennsylvania, Vermont and Washington—have amended their money transmission laws to recognize virtual currencies. And five others—Arizona, Delaware, Illinois, Nevada and Vermont—have enacted or adopted blockchain legislation.

The Vermont General Assembly was the first to pass a blockchain bill in 2015, and laid further groundwork in 2016 when it created standards to determine the authenticity of records using blockchain technology within the state's rules of evidence.

Vermont lawmakers are now considering a bill that would allow newly formed companies to operate digital currency systems like Bitcoin and tax them at a penny per transaction. If it passes, it would be another first.

The bill, introduced by Senator Alison Clarkson (D) in January, would require a digital currency company to pay "a transaction tax equivalent to $0.01 … per transaction for (1) each unit of currency mined or otherwise created; and (2) on each sale or transfer of one or more units of that currency."

Only companies with a physical presence in Vermont would be taxed, and they'd be exempt from all other applicable taxes.

The bill is meant to help "build Vermont's fluency in financial technologies, to unleash 21st century opportunities in our state," Clarkson told Bloomberg Tax. Before the private sector can use digital currency, the state must "provide a regulatory framework in which cryptocurrency can thrive, which would be supported by a light transactional tax," she said.

Not everyone wants cryptocurrency transactions taxed. The Chamber of Digital Commerce, a Washington-based trade group, endorses an unrestrictive approach in which digital currency transactions are treated like any other. To promote the use of blockchain technology, Nevada's law, which passed in June 2017, defines blockchain and adds transactions conducted via the technology to the state's Uniform Electronic Transactions Act. The law also protects businesses using blockchains from being regulated or taxed by local governments.

So far this year, lawmakers in 12 states and the District of Columbia have introduced digital currency legislation. A bill in Arizona would allow taxes to be paid in cryptocurrency, and bills in California and Hawaii would create regulatory structures for virtual currency businesses.

—*Heather Morton and Kevin Frazzini*

How Blockchain Works

In a traditional sales transaction, a buyer makes a purchase and records the payment in a financial ledger as a debit, while the seller marks the sale as a credit. Each maintains a separate ledger.

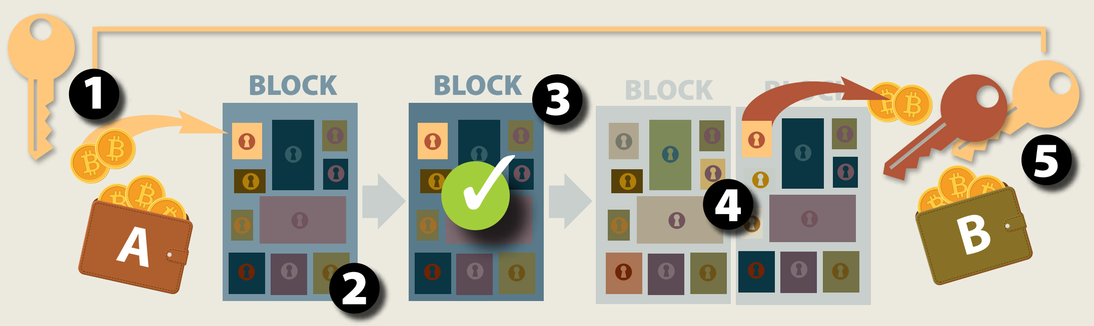
In a blockchain transaction, a buyer initiates the purchase, creating a "block" that contains information such as the date, time and payment amount. The buyer and seller both can see the block of transaction data, so both can confirm that the payment was sent and received. As new transactions occur, each data block is recorded in chronological order, forming the "chain" that documents the transaction history.

The blockchain ledger is permanent and visible to all parties in the network. Each chain is encrypted so that no one can change the transaction data once it is recorded.

That increases trust and reduces fraud, advocates say. And, with fewer ledger systems to maintain, blockchain can lower transaction costs and speed processing times because third parties are not required to verify and process the payments.

Uses for blockchain go beyond cryptocurrency, with potential applications in online voting, medical records, insurance policies, property and real estate records, copyrights and licenses, and supply chain tracking.

Brad, an online merchant, decides to begin accepting Bitcoins as payment. **A**nna, a buyer, has Bitcoins and wants to purchase merchandise from **B**rad. **B**rad and **A**nna both have Bitcoin wallets on their computers.



❶ **B**rad creates a new Bitcoin address for **A**nna to submit her payment to. **B**rad's new Bitcoin address represents a unique public key and a corresponding private key stored in his Bitcoin wallet. The public key allows anyone on the network to verify the transaction. The private key allows **B**rad to retrieve his payment. The address is bundled together with other transactions to form what is known as a block.

❷ **A**nna tells her Bitcoin client to transfer the purchase amount to **B**rad's new Bitcoin address.

❸ The transaction is verified by the network.

❹ The block is added to a chain of blocks which provides a transparent record of transactions.

❺ **B**rad is able to retrieve his payment using the private key in his Bitcoin wallet.

Sources: IEEE Spectrum, World Economic Forum

Campaign Finance Laws Get Tweaked

As campaign costs edge ever higher, lawmakers continue to adjust their campaign finance laws. How they do so, though, is all over the map. The most common approaches states can take are to require candidates to disclose the sources of their funding, to set limits on how much candidates can spend or to provide public financing for candidates and campaigns.

Twenty-three legislatures amended their campaign finance laws in 2017, with nine states enacting new criminal or increased civil penalties for violations of those requirements. In addition, seven states restricted the use of public resources—whether public email accounts (Utah) or public financing funds (Maine)—for campaign purposes.

In line with the ongoing trend of expanding financial disclosure requirements, in 2017 California's "Political Reform Act" made the violation of some disclosure provisions punishable as misdemeanors. California, Maryland, North Dakota, Oregon, Texas and Utah criminalized certain kinds of contributions and disclosure lapses. In Hawaii, candidates who fail to file their disclosure statements on time now face a $75 fine and will have their names published publicly. Arkansas and Idaho now require candidates to file their disclosure statements electronically, and Arkansas and California passed statutes directing their secretaries of state to set up searchable online databases for the public to see candidates' and elected officials' donors.

As for contributions themselves, Kentucky increased its limit to $2,000, and Maryland and North Dakota placed new restrictions on foreign contributions. No states acted on public financing.

Creativity is the watchword as lawmakers deal with at least one problem they all have in common: Every major campaign costs more than the one before it.

—*Ben Williams and Wendy Underhill*

States Declare Porn a Health Crisis

In 2016, Utah enacted a first-of-its-kind resolution that is catching on around the country.

The resolution recognized that "pornography is a public health hazard leading to a broad spectrum of individual and public health impacts and societal harms." Alabama and Tennessee introduced similar resolutions in 2016, but both failed. In 2017, at least 16 state legislatures introduced resolutions; Arkansas, Kansas, Louisiana, South Dakota and Tennessee adopted them. So far this year, 11 states have resolutions pending.

The resolution has no practical impact as it doesn't ban porn or set aside money to fight it. But supporters see it as a milestone in their effort to link porn use to a host of social ills and public health costs, from teen sexting and campus sexual assault to divorce, addiction and sexual violence.

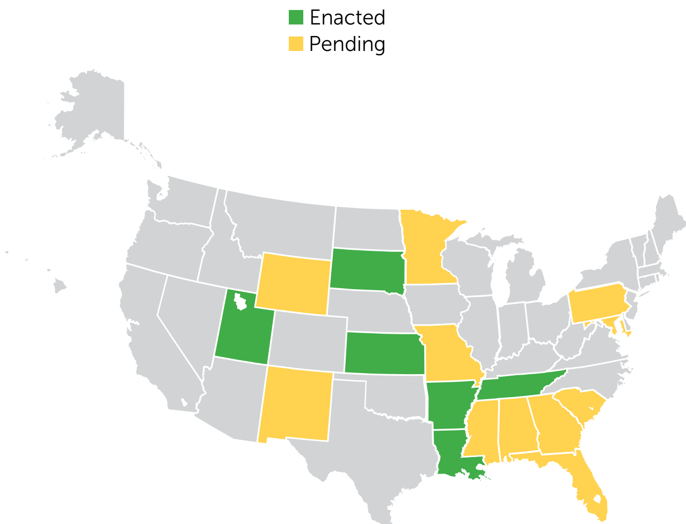
Those opposing such resolutions point out that the U.S. Supreme Court long ago ruled porn use constitutional. They also argue that the science is far from settled, with some studies linking porn use to sexual, mental and emotional problems, and others finding it can help people's relationships.

For now, Utah's anti-porn advocates have scored a symbolic victory.

—*Pam Greenberg*

Mapping a Crisis

State actions on declaring porn to be a health hazard



Experience With Paid Family Leave Grows

Expect a few states to have lively debates this year over job-protected paid family leave and whether to require employers to provide it to workers caring for newborns or seriously ill family members.

California, New Jersey, New York, Rhode Island, Washington and the District of Columbia have paid leave laws. But only California, New Jersey and Rhode Island have enough experience with the benefit to provide some data.

New York's 2016 paid leave law took effect in January this year. A universal paid leave measure became law in Washington, D.C., in February 2017 and will take effect on July 1, 2020. And Washington state's law, passed in July 2017, takes effect at the start of 2020.

Lawmakers in at least 19 states proposed legislation to establish paid family leave programs in 2017. Several states carried over those proposals into this year, and a few have introduced new ones.

Data from the three established state programs in California, New Jersey and Rhode Island provide some insight for lawmakers considering bills.

In all three states, women file the most paid leave claims, usually to care for newborns. Low-income workers file claims at a lower rate than high-income workers, and employees of large companies tend to file more claims than those from smaller firms.

Researchers speculate that low-income workers might participate less often because the benefits offered aren't robust enough to support time off. And a lack of awareness might explain the lower rates of participation among employees of smaller firms.

In a survey of Rhode Island employees who experienced life events that qualified them for paid leave, only 51.4 percent knew the program existed. Still, according to the Rhode Island bill's sponsor, Senator Gayle Goldin (D), "we've seen far better health outcomes and a decrease in stress."

There's no shortage of economic concerns surrounding mandated paid leave proposals, on both sides of the issue.

Families lose billions in wages by taking unpaid leave, reducing their time at work to care for family members or paying for child care.

"For someone with a serious illness, the bill could be the difference between sliding into poverty or getting back on track smoothly," says Senator Joe Fain (R), a primary sponsor of Washington's bill.

There are economic concerns for businesses as well. They include the potential cost increases employers could face due to new administrative requirements or covering for employees who take leave. There's also the potential that employees will abuse the program and the possibility that employers will avoid hiring workers in their child-bearing years.

Proponents point to research that shows the early bonds parents develop with a baby can have long-term economic and health benefits. Along with studies that suggest paid leave can lead to healthier babies, research shows that having that time off may keep mothers better connected to the workforce, leading to higher earnings down the road.

—Jackson Brainerd and Julie Poppe