THE
NATIONAL LAW REVIEW

Blockchain Technology, Tax Attorneys, And The IRS

Wednesday, June 6, 2018

Blockchain could very possibly solve many difficulties that face the Internal Revenue Service (IRS). Blockchain, the underlying technology of bitcoin, could revolutionize how the IRS conducts business. In revolutionizing how the IRS conducts business, it stands to reason that how tax attorneys conduct business would also be revolutionized.

Blockchain Background

According to Deloitte, “it is clear that implementing Blockchain would require far-reaching changes to the legal system, reforming laws on databases, intellectual property, and legal identity.”

What is blockchain and how does it work? Cryptocurrency is an example of blockchain technology. This distributed ledger technology is the underlying force behind bitcoin, ethers and other blockchain projects. DLT is decentralized. Transactions are recorded onto a multitude of computers simultaneously. Each block of data is linked to a previous block of data, that is, “chained” together. The transaction is synchronized and all nodes reflect the updated figures as they occur. Once a transaction is validated and added to a blockchain, the transaction or asset is theoretically immutable.

An anonymous group or person called Satoshi Nakamoto introduced the first blockchain-based bitcoin in 2009. Blockchain has taken off in the last few years as both currencies and as a business tool. Meanwhile, the world’s legal and government sectors have been playing catch up.

Article By PracticePanther
Jaliz MaldonadoPractice Panther

Communications, Media & Internet
Tax
Law Office Management
All Federal

There are both public and private blockchains. Both use decentralized ledgers, both use protocol consensus, and both ensure ledgers are immutable. While anyone can join a public blockchain, a private blockchain may only be joined by invitation or permission and must be validated by the network starter or by rules set up by the network starter. Today, many businesses are establishing private blockchains to help operate their systems.

Revolutionizing Tax Law

There are a number of situations where IRS complications could be smoothed out using private blockchain technology. There are several instances where the IRS must wait for lengthy periods before payments are settled or information is received. Blockchain could safely and securely speed the receipt of data from a mountain of forms. It could render payments settled in a matter of hours rather than days. Blockchain is an ideal tool for reducing taxpayer identity theft. It would also alleviate staff and budget reductions. Storing taxpayer information via blockchain would offer a groundbreaking approach to ensure security and maintain the accuracy of taxpayer data.

To properly and efficiently guide clients, tax attorneys will have to become well versed in blockchain technology and how it will affect the changed tax law landscape. A tax law attorney must understand, interpret and be able to use this technology in practical ways.

Implementation of Blockchain Technology

Other industries, including banking, insurance, real estate, and the arts, have begun capitalizing on blockchain capabilities. These and other clients will expect their attorneys to be able to understand and work with blockchain, including understanding its advantages and disadvantages. Attorneys who transform themselves into blockchain experts today will more than likely see enormous returns in the future.

Another area where blockchain could cause disruption is in the use of smart contracts. It is possible to create these limited, simple contracts with blockchain. The IRS could certainly put smart contracts to multiple uses.

A smart contract is a self-executing, self-enforcing program on a blockchain that, among other things, enables money or agreements to be exchanged. They are written in such a way that the rules are spelled out. Certain conditions must be met before the program will allow a party to proceed to the next step. Each time a criterion is met, the program will execute certain contract terms.

Using smart contracts would free up an enormous amount of time for the IRS and tax attorneys. Learning how to effectively use these contracts would help clients, attorneys, and the IRS. Eventually, tax attorneys who become blockchain wizards will work out how to use more complex contracts that will continue to bring huge changes to the tax law industry.

Conclusion

It is in all likelihood simply a matter of time before the IRS and many other government agencies adopt blockchain technology to provide a secure, speedy, efficient, and cost-effective manner to analyze, store, and transform data and currency. Forward-thinking tax attorneys will be at the forefront of this wave.