



Robert W. Wood

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Bitcoin Soars While Liberty Reserve Draws Guilty Plea

Vladimir Kats, the co-founder of Liberty Reserve, entered a guilty plea for money laundering. The [federal indictment](#) alleged that Liberty Reserve—a kind of global banker for criminals—operated one of the world’s most widely used digital currency services. They claim it laundered more than \$6 billion of what the feds allege are the proceeds of crimes.

The guilty plea hands prosecutors key data about the anonymous digital currency system that some say let cybercriminals safely and seamlessly wash their money.

Incorporated in Costa Rica in 2006, Liberty Reserve touted itself as the Internet’s largest payment processor and money transfer system. It allegedly functioned as the bank of choice for the underworld, providing infrastructure that enabled cybercriminals to close untraceable financial transactions.

And then in May 2013, the feds shut it down. Immediately before the shutdown, Liberty Reserve had over a million users, more than 200,000 of them in the U.S. They conducted approximately 55 million transactions and allegedly laundered more than \$6 billion.



(Photo credit: antanacoins)

Prosecutors claim that the proceeds came from crimes as diverse as credit card fraud, identity theft, investment fraud, computer hacking, child pornography, and narcotics trafficking. Liberty Reserve was featured in the indictment of eight New Yorkers accused of [looting \\$45 million from ATMs](#) in 27 countries. One official described Liberty Reserve as “PayPal for criminals.”

The indictment charged seven of the company’s principals and employees. Five domain names were seized, including Liberty Reserve, and officials seized or restricted the activity of 45 bank accounts. Users needed a name, address and date of birth to transfer money, but no validation of identity was required. Accounts could allegedly be opened with fake or anonymous names.

Liberty Reserve is alleged to have used third-parties for money transfers. They would accept and make payments and credit or debit the Liberty Reserve account. Law enforcement officials seized four currency exchanges that operate with the business and 35 other websites.

Liberty Reserve was more anonymous than [Bitcoin](#), some have observed. After all, Bitcoin transactions are stored in a public ledger and can be traced. In any case, Bitcoin’s fortunes are on the rise. The price of Bitcoin has risen nicely after some earlier volatility [hitting an all-time high of \\$305](#).

Perhaps Bitcoin was buoyed by the launch of Silk Road 2.0. Perhaps it is because more traditional merchants are beginning to accept it. And speaking of legit, a reference from the overseer of U.S. currency didn’t hurt either. Check out this [primer](#) from the Federal Reserve Bank of Chicago. He says it isn’t anonymous and that even governments could start using it! See [Federal Reserve Economist On Bitcoin: ‘Small Phenomenon But Growing’](#).

That brings me to taxes, which seem to follow from so much else. In [IRS Takes A Bite Out Of Bitcoin](#), I said that Bitcoin doesn’t obviate taxes. Dissenters argued that the anonymity of the upstart digital currency is all that matters. Perhaps they can [evade taxes](#) and the IRS won’t catch them.

But that doesn’t mean there’s no income. Not only that, all this legitimacy—which should be good for Bitcoin and good for merchants and users—means the IRS seems sure to start developing its own systems and methodologies. Let’s see, someday soon there could be a Form 1099-Bitcoin.

You can reach me at Wood@WoodLLP.com. This discussion is not intended as legal advice, and cannot be relied upon for any purpose without the services of a qualified professional.