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ARTICLE

Million Dollar Bash: A Nuanced Approach for Calculating Tax Liability for Participants in Decentralized Finance

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Highlighting the tax implications arising from decentralized finance (DeFi), the article discusses the issue of how to assess tax liability for lenders and liquidity providers engaged in DeFi. The author explains that complications stem from the vacillating nature of yields earned through DeFi and proposes a solution for tracking and calculating taxable income from participating in DeFi. Divided into several sections, the article offers a high-level overview of blockchain technology and cryptocurrency; explains the features of DeFi and recent regulatory action in connection with DeFi; discusses traditional tax principles and current IRS guidance on cryptocurrency; and proposes a "system in, system out" approach for computing "income" derived from DeFi lending activity.

"This Article poses a simple solution: a 'system in, system out' approach whereby users recognize a taxable event only when they withdraw funds from a given DApp [decentralized application] back into a personal crypto wallet," the author writes. "This will yield numerous benefits, including simplifying crypto-related tax reporting, encouraging the long-term productive use of assets, sparing taxpayers from accruing tax liability on assets that are not as liquid or usable in everyday life like many other capital assets, encouraging innovation, and recognizing that crypto assets are a different asset class requiring a nuanced regulatory approach."

Read "Million Dollar Bash: A Nuanced Approach for Calculating Tax Liability for Participants in Decentralized Finance." This Article was originally published in Volume 54, Issue 3 of the *Texas Tech Law Review*.

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