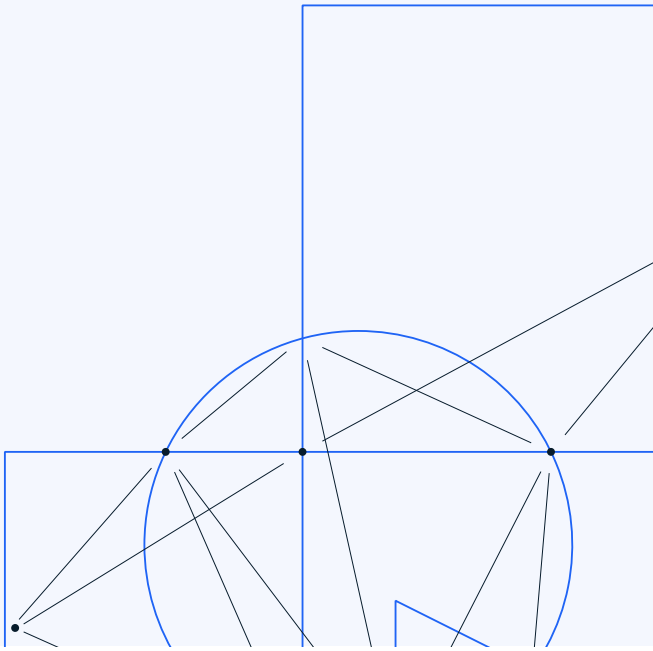
TRM

7 Pillars of Highly Effective Tax Agencies

Pillar 6: Robust Examinations



You have the framework for data-driven case evaluation and selection in place. Now you need to maximize that data. The challenge? Traditional methods or tools may not be enough to keep pace with the complexities of digital assets – but it's possible with both training and purpose-built technology. **The sixth pillar in scaling your crypto tax operations is through robust examinations.**

How blockchain intelligence increases investigative efficiency

In the examination process, examiners may come across crypto identifiers, and it becomes essential to not overlook evidence of crypto activity, which can embolden future noncompliance. Two key challenges that quickly emerge at this stage are:

1. How to recognize evidence of crypto activity within documentation provided
2. How to assess the importance of that information in real-time, rather than referring the issue out and waiting for a response

Frontline examiners, auditors, analysts, and anyone involved in the documentation collection process should consider training on how to spot crypto identifiers. These include relevant indicators of crypto activity – whether it be fiat movements to exchanges, evidence of on-chain activity through hardware wallets or software wallets, or references in the public domain (e.g. social media accounts, news articles, etc.).

Because the data involved with a crypto examination is often both unique and expansive, traditional tools like spreadsheets are inefficient or impossible to use. To maintain efficiency – and the ability to effectively work large complex cases – frontline personnel need blockchain intelligence and data aggregation and reconciliation tools – many of which present a low barrier to entry, even for investigative personnel with little or no past training on cryptocurrency.

How blockchain intelligence scales crypto-related enablement

Although some tax agencies have specialized crypto groups, examiners often don't have the time to refer every crypto-related question to those individuals. And as crypto continues to gain mainstream traction, bandwidth constraints will only continue to increase.

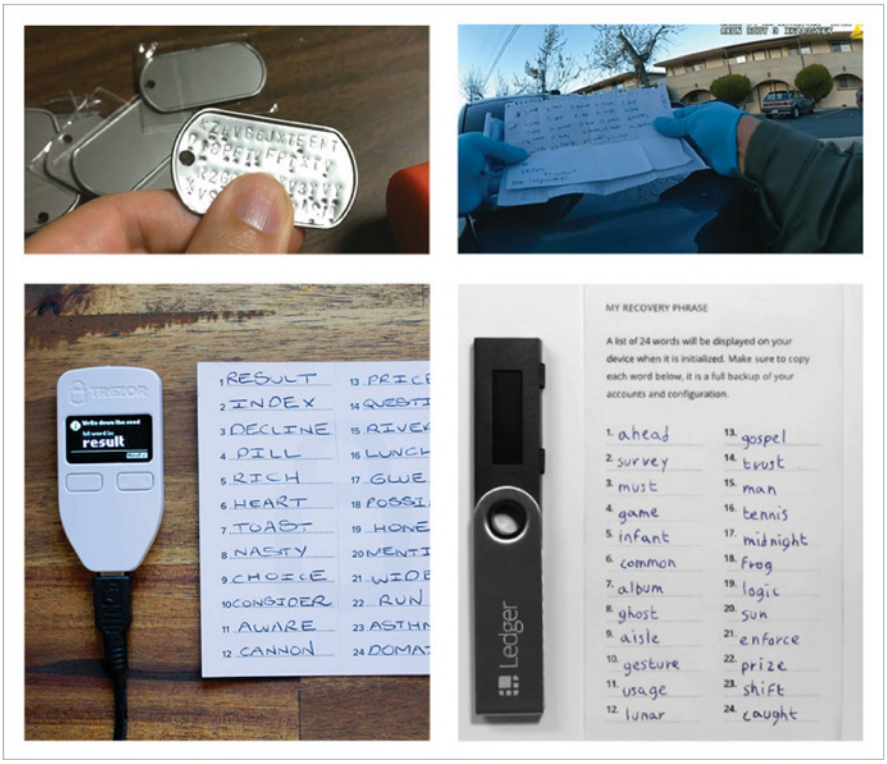
Tax authorities need to find ways to enable all of their frontline personnel to deal with a broad array of basic crypto issues while maintaining specialty groups to tackle the most complex cases. Blockchain intelligence tools — like those from TRM Labs — can provide powerful insights to any user, including those with limited expertise in the inner workings of blockchain technology.

As examiners compile transaction data from both on- and off-chain sources, that data needs to be standardized, organized, and correlated in order to use it effectively in examinations. Specialized data aggregation and reconciliation tools, such as Taxbit's DARTS tool, can be used to standardize and assemble the data so that investigators can work with it more meaningfully.

Why teams need both blockchain intelligence and data aggregation are critical

The combination of blockchain intelligence and aggregated data is critical for simplifying and streamlining issues that commonly arise in investigations and audit reviews.

For example, entering a Bitcoin address found on a piece of paper at a scene might return not only Bitcoin, but also a bitcoin fork, like Bitcoin Cash — showing available balances at each address. Transactions on the Bitcoin network and the Bitcoin Cash network can then easily be added to the taxpayer's data through a data aggregation tool that automatically correlates unit movements with existing data and provides insights into the economic or tax impact on the audit.



As information is gathered and data is correlated, examiners or investigators can use blockchain intelligence to identify illicit risk connections, transaction history, and — crucially — any quick investigative leads linked to the address, including other native assets and tokens connected to that crypto identifier — like NFTs.

Together, blockchain intelligence and data aggregation and reconciliation tools are essential in enabling tax authorities to build a holistic picture of an individual's crypto asset profile — efficiently, scalably, and self-sufficiently — while increasing the chance for tax authorities to identify noncompliance and revenue collection in all stages of the compliance case process.

To keep pace with the evolving tax landscape, agencies should begin integrating blockchain intelligence and data aggregation tools into examiner training and daily workflows now. The earlier teams adopt these capabilities, the faster they'll be able to identify noncompliance, protect revenue, and build confidence in their crypto examination programs.