

# **Bitcoin Basics and the Problem Gambling Connection: Part 2**



Youth Gambling Awareness Program

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## Bitcoin Basics and the Problem Gambling Connection, Part 2

Investment or gambling? This is a common question asked about Bitcoin. Part 2 of this series will explore how Bitcoin is connected to gambling and how the use of cryptocurrency is changing the face of online gambling. Be sure to refer to Part 1 for clarification on terminology.

### Bitcoin Review

Bitcoin is an open source peer-to-peer electronic money and payment network.<sup>11</sup> It is the most prominent digital currency used today and serves as a form of electronic money that acts as an alternative type of currency. Bitcoin is not backed by a central bank. It is also not intently regulated, and has been a source for electronic illegal activity. All of these characteristics impact its acceptance and raise questions about it being a legitimate means of exchange.

### Bitcoin and regulation

The legal status of bitcoin varies substantially from country to country and is still undefined or changing in many of them.<sup>2</sup> Its status as money (or a commodity) varies, with differing regulatory implications. While some countries have explicitly allowed its use and trade, others have banned or restricted it. The majority of countries, however, have not made the usage of bitcoin itself illegal.

Some countries like Canada and the United States accept digital currencies to buy goods and services on the internet and in stores that accept digital currencies. In Canada, you may also buy and sell digital currency on open exchanges, called digital currency or cryptocurrency exchanges. An open exchange is similar to a stock market. However, digital currencies, such as bitcoin or other cryptocurrencies, are not a legal tender in Canada. Tax rules apply to digital currency transactions, including those made with cryptocurrencies. Using digital currency does not exempt consumers from Canadian tax obligations. This means digital currencies are subject to the Income Tax Act.<sup>3</sup>

The United States has a similar approach to bitcoin and cryptocurrencies. It is legal to use bitcoin in the United States with payments being subject to the same taxes and reporting requirements as any other currency.<sup>4</sup>

There are countries such as China and South Korea that have announced eventual closure of domestic cryptocurrency exchanges and some including Algeria, Morocco, Nepal, and Russia that are considering banning bitcoin or limiting how cryptocurrencies may be used.<sup>5,6</sup>

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<sup>1</sup> <https://bitcoin.org/bitcoin.pdf>

<sup>2</sup> [https://en.wikipedia.org/wiki/Legality\\_of\\_bitcoin\\_by\\_country\\_or\\_territory](https://en.wikipedia.org/wiki/Legality_of_bitcoin_by_country_or_territory)

<sup>3</sup> <https://www.canada.ca/en/financial-consumer-agency/services/payment/digital-currency.html>

<sup>4</sup> <https://www.marketwatch.com/story/heres-how-the-us-and-the-world-are-regulating-bitcoin-and-cryptocurrency-2017-12-18>

<sup>5</sup> <https://www.reuters.com/article/us-southkorea-bitcoin/south-korea-plans-to-ban-cryptocurrency-trading-rattles-market-idUSKBN1F002B>

<sup>6</sup> <http://time.com/money/5198439/all-the-places-now-cracking-down-on-bitcoin-and-cryptocurrencies/>

## Bitcoin and Gambling

In the eyes of Stephen Poloz, Canada's Central Bank Chief, bitcoin is more closely related to gambling than anything else. The act of taking a risk when the outcome is uncertain is how we come to define gambling. Poloz stated, "What their [cryptocurrencies] true value is may be anyone's guess – perhaps the most one can say is that, buying these things means buying risk, which makes it closer to gambling than investing."<sup>7</sup> Most recently Forbes Magazine reported billionaire philanthropist Warren Buffet explaining that bitcoin is distinctly different from investing, and is in fact gambling.<sup>8</sup> Buffet believes that bitcoin is based in speculation, which is not direct investing. It is also largely unregulated. Buffet stated, "You aren't investing when you do that. You're speculating. There's nothing wrong with it. If you wanna gamble somebody else will come along and pay more money tomorrow, that's one kind of game. That is not investing".<sup>5</sup> He further adds that hoping for the next person to participate will pay more is a distinct divergence from investment. The innate speculation that exists with bitcoin makes using cryptocurrency a risk. Risk is gambling.

While investing in bitcoin might seem like a good way to make money, bitcoin's price can spike up or down dramatically. For example, bitcoin hit a peak of \$5,000 and subsequently hit a low of \$2,900 in September 2017. There was the expectation on the behalf of investors that the coin would increase in value as previous trends had suggested, but it still crashed. This is a trend that occurs almost every year. The unpredictability of the cryptocurrency market further adds credibility to the gambling over investment argument.

The below chart includes a few of many important numbers highlighting the fluctuation of the rise and fall of bitcoin.<sup>9</sup>

2009	Low to no value.
2011	Reached a high of \$31 in July, but by December it fell to \$2.
Nov 2013	At a height of \$1,200.
May 2014	\$400-\$600
Mar 2015	\$200-\$300.
May-June 2016	\$400-\$700
Sept 2017	Hit a peak of \$5,000 and, then crashed in the same month to \$2,900.
Dec 2017	Highest it has been \$17,900. Then, same month, crashed to \$13,800 in 24 hrs.

## Bitcoin and Online Gambling

There are gambling sites/apps which transact only in bitcoins. There are others that offer bitcoin as additional currency of transaction, in addition to transactions in traditional currencies like the United States dollar. Through bitcoin transactions, a wide variety of options are available for players to bet on: casino games, sports, online lotteries, spreads, etc.

<sup>7</sup> <https://www.bnn.ca/buying-bitcoin-is-more-like-gambling-than-investing-poloz-says-1.943883>

<sup>8</sup> <https://www.forbes.com/sites/jessedamiani/2018/04/30/warren-buffett-says-buying-bitcoin-is-gambling-not-investment/#a275aef2c574>

<sup>9</sup> [https://en.wikipedia.org/wiki/History\\_of\\_bitcoin](https://en.wikipedia.org/wiki/History_of_bitcoin)

Bitcoin and other cryptocurrencies that offer online casinos exist outside the regulated (or unregulated) gambling environment.<sup>10</sup> There are various features unique to bitcoin gambling opportunities that heighten the draw to both gamble online but also to do so through bitcoin.

Bitcoin casinos require minimal user details (quite often limited to only email and login-name), no age verification, no location check or other details. It's anonymous. They offer almost zero transaction fees and unlimited daily transactions whereas traditional currency-based casinos have set limits and transaction fees as well as chargebacks. Bitcoin transactions are also fast and immediate and allow players to withdraw their funds when and as they wish rather than holding funds at the site and risking the casino shutting down while still holding it.<sup>11</sup> Another aspect is the 'provably fair' claim by bitcoin, which simply means a player can verify if their bet was tampered with by viewing a string of text provided after each bet.<sup>12, 6</sup>

Bitcoin casinos are gaining popularity. This is a concern because, without regulations, there are no responsible gaming policies and no protections for youth or people impacted negatively by gambling. As noted previously, because of the manner in which bitcoin operates, governments around the world are feeling the pressure to better regulate this and other forms of cryptocurrency. This regulation will directly impact the world of online gambling as well as bitcoin.

### **Legal Issues**

While bitcoin and other cryptocurrencies have seen success, there have also been a number of legal hurdles encountered around the world. Bitcoin has served as a vehicle for illegal activities around the world including money laundering, sex trafficking, illicit drug black markets such as through the infamous *Silk Road* (shut down in 2013), and resulted in at least \$1 billion worth of digital coins being seized and in the custody of U.S. law enforcement.<sup>13, 14</sup> The United States Securities Exchange Commission (SEC) does not have intentions of shutting down bitcoin or banning cryptocurrency in the near future, but has stated the agency is "watching".<sup>6</sup>

Bitcoin and cryptocurrency casinos themselves pose specific legal quandaries. Most of the known bitcoin casinos are incorporated outside of the US and Canada and people from around the world transact on these sites anonymously. Anonymity poses a challenge to authorities to gather the necessary data to enforce rules and/or regularize, control and legalize the transactions.<sup>15</sup> Many bitcoin casinos will tweak rules of the games. Such variations are not allowed legally in traditional currency-based online casinos. Additional legal challenges of bitcoin casinos include tracking payments, identifying players and casino operators as well as audit and verification of transactions. Running bitcoin casinos is illegal in the US and Canada.

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<sup>10</sup> <https://themerke.com/bitcoins-future-lies-in-regulated-online-gambling-markets/>

<sup>11</sup> <https://www.bitcoinsportsbooks.com/blog/safe-gambling-bitcoin>

<sup>12</sup> <https://www.investopedia.com/news/gaming-regulations-bitcoin-gambling-price/>

<sup>13</sup> <https://www.islandstudies.ca/sites/default/files/ISJ-9-1-Connell.pdf>

<sup>14</sup> <https://www.scribd.com/article/371712996/Uncle-Sam-S-Secret-Bitcoin-Windfall>

<sup>15</sup> <https://www.investopedia.com/articles/investing/102214/how-bitcoin-casinos-work.asp>

However, some jurisdictions including Malta and Alderney are assessing risks and opportunities for potential legal use of bitcoin and other cryptocurrencies at online casinos.<sup>16</sup>

**Preventative Measures (harm reduction strategies to be considered):**

- Bitcoin and other cryptocurrencies should be viewed as a high-risk asset. Invest only what you can afford to lose with bitcoin. Just like with gambling activities, expect to lose.
- Do business with people and organizations you can trust. Bitcoin transactions cannot be reversed.
- Bitcoin is traceable and you should protect your privacy by using a bitcoin address only once. Bitcoin transactions are stored publicly and permanently on the network and users usually have to reveal their identity in order to receive services or goods. Once addresses are used, they become tainted by the history of all transactions they are involved with.
- Because the bitcoin network is a peer-to-peer network, it is possible to listen for transactions' relays and log their IP addresses. You might want to consider hiding your computer's IP address
- Most jurisdictions still require you to pay income, sales, payroll, and capital gains taxes on anything that has value, including bitcoins. It is your responsibility to ensure that you adhere to tax and other legal or regulatory mandates issued by your government and/or local municipalities.
- Keeping your bitcoin wallet safe is very crucial. Some safeguards include: encrypting the wallet with a strong password, and choosing the cold storage option i.e. storing it offline.
- Do your research and educate yourself on the topic. Look at the bitcoin trends, talk to people who have invested in it.
- Understand the position your government has on bitcoin.
  - You might invest a lot only to find out that your government is going to pass legislation to de-legitimize the digital currency.

**Want to Learn More?**

The next few years will prove to be crucial to Bitcoin and other cryptocurrencies' success or failure. If you are interested in the world of cryptocurrencies, you can expand your knowledge by exploring altcoins and Ethereum as well as keeping track of your government's efforts to regulate online gaming, online casinos, and the use of cryptocurrencies.

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<sup>16</sup> <https://www.coindesk.com/immediate-future-malta-gearing-greenlight-bitcoin-gambling>

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