



The Council of State Governments

CSG Healthy States National Task Force Fiscal Health Subcommittee

Summary of Meeting Three, July 11, 2022

The third meeting of the CSG Healthy States National Task Force – Fiscal Health Subcommittee took place during the Annual Meeting of The Council of State Governments (CSG) Southern Legislative Conference in Oklahoma City, Oklahoma on Monday, July 11, 2022. The subcommittee explored issues related to the relationship between state governments and **digital assets** and the potential public sector use of **emerging blockchain technologies**.

“Cryptocurrency and Blockchain”

Dr. Tonya Evans, professor at Penn State Dickinson Law and host of the [Tech Intersect Podcast](#), presented to the subcommittee on the applications of blockchain technologies and how the explosion of cryptocurrencies are changing the relationship between governments and digital assets. Dr. Benjamin asserted that there are now over 20,000 types of cryptocurrency and that blockchain technologies are expected to see massive growth in coming years. It is in the best interest of state governments to assess the role of these inventions in the civic sector. A few highlights:

- Dr. Evans urged the subcommittee to think of these technologies as digital assets first, instead of cryptocurrencies. Not all forms of crypto function well as currencies; for example, bitcoin is not a great *currency* at this time because people do not like to spend it.
- The advantages of cryptocurrencies include that they are easy to trade; difficult to steal because transactions are recorded on a public digital ledger known as a “blockchain;” and they are not monopolized by one entity which makes them accountable only to market demands.
- One of the primary concerns around digital assets is scammers. Public and private institutions must balance their support for innovation in the digital asset arena with their obligation to protect investors and consumers.
- Blockchains are the technology that enable cryptocurrencies. They have incorruptible, timestamped ledgers that are not controlled by a particular government or entity. Dr. Evans used the example of a group chat to explain them: “even if you delete a message in that group chat, everyone else in the group still has a copy of it.”
- Countries are beginning to experiment with accepting cryptocurrencies as legal tender. Dr. Evans warned that governments should be cautious with this approach as there is not enough research to know what the overall impact would



be. For example, a nation would not want to collapse their traditional currency overnight by introducing a new, digital one.

- States are, however, experimenting with accepting cryptocurrencies as payment for business and individual taxes. An event known as the “[Crypto Winter](#)” slowed down this process. Dr. Evans opined that tax receipts that fluctuate in value as much as crypto have implications that should be considered ahead of time. A state would need a very balanced portfolio to weather cryptocurrencies suddenly losing a lot of value in a short period of time.
- Additionally, Dr. Evans noted that the federal government should begin thinking about how and when to tax the exchange of cryptocurrencies. Each exchange of digital assets is a taxable event. People are often doing exchanges across the world. The federal government will need to set a minimum bar on the value of digital currency transactions that trigger a tax.

Fiscal Health Subcommittee Work Session

Fiscal Health Subcommittee members met in a working session after Dr. Evans’ presentation to discuss the content and brainstorm additional policy themes to consider for the subcommittee’s bipartisan recommendations for improving the fiscal health of states. A summary of the subcommittee’s conversation follows:

- There are concerns about the energy costs associated with mining cryptocurrencies, like bitcoin, that operate with a “proof of work” protocol.
- Dr. Evans offered that another way to think about bitcoin’s energy consumption is to see bitcoin as a global system. As a global system, one should compare the energy input of the whole blockchain versus the global system of other industrial energy consumption. Still, state leaders are focused on the amount of energy consumed by bitcoin miners within their jurisdictions.
- More research is needed to address the potential need for legitimate tracking of bitcoin purchases, while still allowing user privacy in most transactions.
- A challenge to any effort to use cryptocurrency at the state level is that it requires a level of financial literacy that many residents do not yet have. Public education would be required to fully incorporate digital assets into the everyday business interactions involving the public and their government.
- Another concern associated with digital assets is whether one type is being surveilled by a foreign nation. A question for state governments to consider is whether the use of some cryptocurrencies should be discouraged.
- The use of blockchain technologies in other industries such as energy, agriculture and insurance is of particular interest to the subcommittee. Blockchain’s incorruptible ledgers of information can add transparency and veracity to transactions in each of these industries.



Fiscal Health Subcommittee Policy Themes

The Fiscal Health Subcommittee proposed the following policy themes as potential recommendations to consider during the final working session:

- Policy Theme 1: States pursuing cannabis legalization should consider how customers can use cryptocurrency as the dedicated cannabis currency to make secure and safe purchases.
- Policy Theme 2: States should consider how blockchain technology can be used in areas outside of currency exchanges such as in the agriculture, energy and insurance sectors.
- Policy Theme 3: States considering blockchain and cryptocurrency should first create a public campaign to elevate the financial literacy of the public on these new technologies.
- Policy Theme 4: State policymakers working with nonprofit and private sector groups on blockchain and cryptocurrency issues should be prepared to answer questions about the environmental impact of these technologies (i.e. bitcoin mining) before proposing legislation.
- Policy Theme 5: State policymakers considering introducing cryptocurrency and blockchain legislations should change the tax code to allow residents to offset losses they have incurred from trading cryptocurrencies on their state and local taxes (if the state has income and/or earnings taxes).
- Policy Theme 6: State policymakers pursuing legislation that would allow cryptocurrencies to be used as legal tender should consider what the role of the state is in ranking the trustworthiness of different cryptocurrencies (public education).
- Policy Theme 7: State policymakers pursuing legislation that would allow cryptocurrencies to be used as legal tender should consider which cryptocurrencies should not be accepted as legal tender; particularly those run by foreign governments that may create privacy risks to individual residents.
- Policy Theme 8: State policymakers should carefully consider whether existing state laws properly account for unclaimed (abandoned) property in the cryptocurrency and blockchain arena.

Resources

- [Coinmarketcap.com](https://www.coinmarketcap.com) (Web Resource)
- [The National Conference of State Legislatures' Cryptocurrency 2022 Legislation Scan](#) (Web Resource)
- [Tech Intersect with Tonya M. Evans](#) (Podcast)

Policy Examples Highlighted by Task Force Members, Partners and Staff



- **Colorado** will allow residents to pay taxes in cryptocurrencies by the end of 2022. The state plans to accept digital assets as tax payment and immediately use an intermediary to convert these payments back into traditional currency. This change was made possible by [Senate Bill 19-023](#) (2019), also known as the Colorado Digital Token Act.
- In **Utah**, [House Bill 335](#) (2022) created a Blockchain and Digital Innovation Task Force that is charged with developing (1) policy recommendations for the state's adoption of blockchain and related technologies, and (2) nonfinancial incentives for industries to adopt blockchain and other digital technologies.
- [Senate Bill 156](#) (2019) in **Wyoming** created a medical digital innovation sandbox which authorizes the Department of Health to waive specified statutes and rules to allow entities to make innovative medical digital assessment products or services.
- [House Bill 4621](#) (2020) created a financial technology sandbox in **West Virginia** that allows entities to test innovative financial products and services for a 24-month period.

Fiscal Health Subcommittee

- Lt. Gov. Howie Morales, NM (co-chair)
- Rep. Steven Rudy, KY (co-chair)
- Sen. Ed Charbonneau, IN
- Rep. Marcus Evans, IL
- Rep. Leslie Herod, CO
- Sen. Jean Hunhoff, SD
- Rep. Dontavius Jarrells, OH
- Rep. Ryan Martinez, OK
- Sen. Cory McCray, MD
- Sen. Scott Meyer, ND
- Rep. Jordan Rasmusson, MN
- Sen. Blake Tillery, GA
- Rep. Mary Jane Wallner, NH

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