OFFICE OF LEGISLATIVE RESEARCH
Objective Research for Connecticut's Legislature

Issue Brief

Virtual Currency

What is virtual currency?

Under Connecticut law, virtual currency is generally any type of digital unit that is used as a medium of exchange or a form of digitally stored value or that is incorporated into payment system technology (CGS § 36a-596, as amended by PA 24-146).

In practice, virtual currency is a digital currency which is not issued or backed by an issuing government or a central bank (like the U.S. dollar). Nationwide, there is no overarching comprehensive regulatory framework for virtual currency, but federal agencies like the Securities and Exchange Commission and the Commodities Futures Trading Commission are involved in oversight of certain digital asset market transactions. Examples of virtual currency are cryptocurrencies, like Bitcoin or Ethereum with fluctuating values, and stablecoin with value tied to another asset (e.g., Tether).

Cryptocurrency *is a type of virtual currency that implements cryptography technology to secure and authenticate transactions.*

Stablecoin *is a type of cryptocurrency whose value is pegged to another asset like fiat currency or a commodity. One main use of stablecoins is to trade in other cryptocurrencies.*

Virtual currency kiosks *are electronic terminals that aid in the exchange of virtual currency for fiat currency or other virtual currency.*

How does Connecticut regulate virtual currency?

In Connecticut, the state's money transmission law generally requires licensure in order to take possession or control of monetary value for someone else to hold it for a period of time or to transmit it to a third party (CGS § 36a-595 et seq., as amended by PAs 23-82, 23-126, 24-146, and 24-1, June Special Session). This requirement applies to virtual currency transactions, such as those in which it is traded for other assets or other virtual currency. Related, a money transmitter license is needed to own, operate, or advertise a virtual currency kiosk in the state and the law sets operation requirements for them largely aimed at consumer protection, such as requiring certain disclosures and live telephonic customer support, capping fees, and refunding fraudulent transactions for new customers under certain circumstances (CGS § 36a-613, as amended by PA 24-146).

The law also allows the state Department of Banking to adopt regulations, forms, and orders on the business use of virtual currency by those who are subject to regulation by the commissioner (CGS § 36a-614, as amended by PA 24-146).

Lastly, PA 24-114 establishes the circumstances under which virtual currency is presumed abandoned and explicitly subjects it to the state's unclaimed property law.

Advantages to Using Cryptocurrency

Mobile banks such as N26 provide the following as advantages:

- **Transaction Speed:** Virtual currency payment transfers may be completed faster than through traditional methods like an electronic money or wire transfer involving a financial institution that needs to confirm a transaction.
- **Transaction Cost:** These transfers may be less expensive than traditional payment systems due to less intermediary involvement and, internationally, no currency conversion.
- **Accessibility:** Virtual currency is not dependent upon the traditional bank system and may provide financial services for underbanked and unbanked populations. Transactions may also be completed at any time.
- **Security:** The supporting infrastructure may track transactions across multiple computers so that they cannot be lost.
- **Potential for Greater Returns:** Although there is risk, market fluctuation creates opportunity for greater returns compared to other investments. Also, because cryptocurrencies are not tied to a single currency or economy, their price reflects global demand, not national inflation.

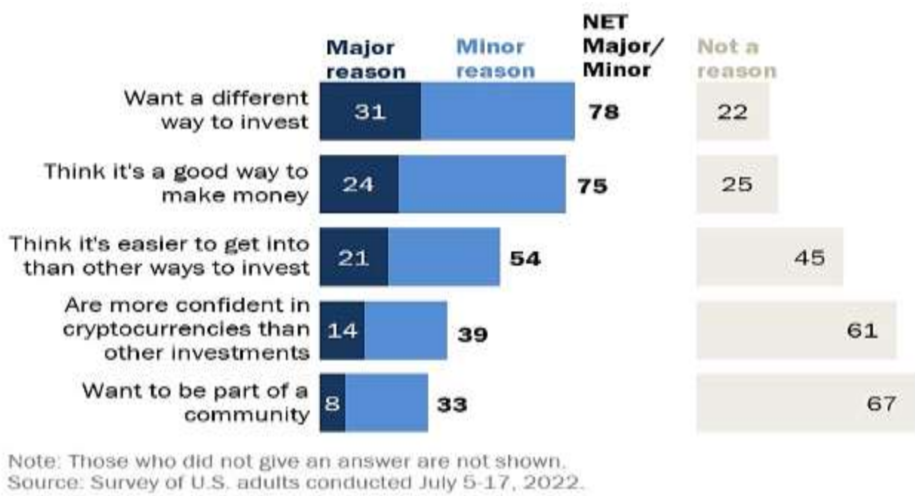
Concerns About Using Cryptocurrency

Regulators may caution investors about buying, investing in, or trading cryptocurrency for reasons such as:

- **Volatility:** Virtual currency value can rise or fall in great amounts over a short time period. Cryptocurrencies are also generally not tied to promises by a government or central bank.
- **Lack of Deposit Guaranty:** Virtual currency accounts are not insured by the government, so if funds in the accounts disappear, there may be no way to replace them. (The Federal Deposit Insurance Corporation insures bank deposits up to $250,000.)
- **Digital Wallet Protection:** Some exchanges that store virtual currencies in digital wallets have been unable to protect them.
- **Possible Connection to Criminal Activity:** Criminals may use virtual currencies for money laundering and other crimes because they provide some anonymity. Funds may be difficult to access when a virtual currency exchange is shut down due to possible criminal activity.
- **Tax Implications:** The Internal Revenue Service (IRS) treats virtual currency as property, not currency, and general tax rules for property transactions apply to virtual currency. The IRS has guidance on reporting income from these transactions.

What are the primary reasons people invest in virtual currency?

According to 2022 survey data from the Pew Research Center, the two main reasons Americans invest are for diversification and because they think it is a good way to make money. Pew's study, with results shown at right, answered this question: "*Among U.S. adults who say they have ever invested in, traded or used cryptocurrency, % who say each of the following is a _____ they have done so.*"



Learn More

"Cryptocurrency: Selected Policy Issues," Congressional Research Service (Feb. 2023)

"Crypto-Assets: Implications for Consumers, Investors, and Businesses," U.S. Department of the Treasury (Sep. 2022)

"Cryptocurrency, Digital or Virtual Currency and Digital Assets 2024 Legislation," National Conference of State Legislatures (Nov. 2024)

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