Champing At The Bit: Can You Pay Your Workers In Bitcoin?

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For the first time, a large, publicly traded company—Japanese web-business GMO Internet—has announced that it will soon offer its employees the chance to receive their pay in the world’s most popular cryptocurrency: bitcoin. While it’s not unheard of for smaller businesses operating in the tech-savvy blockchain or cryptosphere to offer bitcoin as compensation, it became worldwide news when GMO disclosed its 4,000 employees will have the option of receiving bitcoin as a portion of their salaries beginning this February. Is this the start of a new trend you need to be aware of? What does the average employer need to know about bitcoin, and can you pay your workers using this cryptocurrency?

Bit By Bit: Learning About Bitcoin

Don’t be embarrassed if you’ve heard of bitcoin or other cryptocurrencies but don’t quite understand it (or if you haven’t heard of it at all). Created in January 2009, bitcoin is still a relatively new phenomenon that occupies only a very small slice of the worldwide economy. Nonetheless, as with other cryptocurrencies, it’s growing in popularity.

Cryptocurrencies such as bitcoin are simply digital currency. There aren’t any actual physical coins out there for you to hold or collect. It is a medium of exchange, more like gold than money, which consists of small chunks of computer code that can be “mined” by those spending the time and effort to hash blocks of bitcoin transaction data into smaller hash values.
You can purchase bitcoin using traditional forms of currency (like American dollars) and hold it in a digital wallet located on your computer, smartphone, or computing cloud. You can then use your bitcoin to make payments and purchase products or services from companies accepting the currency, and the number of these such companies continues to steadily increase.

So why would anyone want to own bitcoin? The main appeal is that it is completely decentralized due to its underlying blockchain technology. There is no middleman between parties exchanging the currency, unlike regular forms of payment that are backed and controlled by a central government authority or a bank. Because there is no intermediary, payments can be made without the typical administrative hassles that, among other things, increase costs and delay traditional transactions by several minutes, hours, or days.

**It’s A Bit Volatile, Though**

If you’ve heard a bit about bitcoin in the last few months, it’s probably due to its incredible volatility. The currency is bought and sold on digital exchanges through a form of bidding, and the supply and demand of bitcoin at any single moment (unlike the traditional market, bidding is available 24 hours a day, seven days a week) leads to its valuation. Similar to shares on a stock exchange, there are sometimes wild price swings.

From 2009 to 2013, the cost of one bitcoin didn’t rise above $100. Then there was a slow and steady rise for several years until it finally topped $1,000 in early 2017. It then abruptly skyrocketed in value to over $19,000 per bitcoin by late 2017, with severe dips and rises in worth on a seemingly hourly basis. In early 2018, a typical week hit lows around $13,000 and highs around $17,000, and at the time of publication its value had plummeted to somewhere in the $11,000 range.

To put it into perspective, the first real-world bitcoin transaction took place on May 22, 2010, when a man named Laszlo Hanyecz paid 18-year-old Jeremy Sturdivant 10,000 bitcoins for two Papa John’s pizzas. At the time, the transaction was valued at about $41. Today, that same purchase would be worth well over $100 million.

**Every Little Bit Helps: Pros Of Paying In Bitcoin**

So what’s the appeal of paying your employees using this volatile form of cryptocurrency? Why is there a rise in the number of smaller, high-tech businesses adding this form of payment to their portfolio, and why might you consider this option for your business?

As noted above, the single biggest advantage of bitcoin is its ease of use. When you make a payment, it’s received instantly by the payee. There are minimal waiting periods for payments to clear, and administrative or processing fees are lower. Moreover, there are no exchange rates to navigate or other hurdles to clear when it comes to making payments across international borders. Thus, bitcoin becomes especially advantageous if you are providing payment to overseas contractors or workers.
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You don’t have to struggle with difficulties regarding which currency to use or the daily exchange rate, issues that might otherwise come into play.

Besides the obvious administrative benefits, there is a bit of cachet associated with the use of bitcoin at present. Announcing that you pay workers in bitcoin might signal to the community that you are a cutting-edge business on the forefront of modern strategies. In turn, this could give you an advantage when recruiting and retaining new talent. Workers could be attracted by the potential upswing in value that some predict will continue; holding onto that one bitcoin and selling it at the right moment could be an exciting prospect for a worker to consider.

A Bit Of Sobering News: Downsides (And Solutions) To Paying In Bitcoin

But there are downsides, and foundational problems, to consider if you are interested in making bitcoin payment part of your compensation structure. First and foremost, federal and state law may not allow you to use bitcoin to pay employees’ salaries. The federal Fair Labor Standards Act (FLSA) requires you to pay employees in “cash or negotiable instruments payable at par,” and because an employee in receipt of a certain number of bitcoins may not be reasonably capable of spending the currency as they see fit, it could create an illegal hurdle. Moreover, various state statutes require you to make wage payments in U.S. currency, and the IRS has said that bitcoin and other cryptocurrencies are considered “property” instead of “currency.”

However, there are solutions to overcoming these obstacles. You could offer bitcoin as an optional benefit your employees could receive on top of their standard U.S. dollar-based compensation. The Japanese company mentioned at the beginning of this article, for example, has not converted the entirety of its compensation structure into bitcoin. Workers will have the option of receiving between 10,000 and 100,000 yen (about $88 to $890) monthly in cryptocurrency. You could follow their example.

It’s crucial, however, that you provide your employees’ base compensation in standard currency that meets state and federal limits for minimum wage and overtime. For non-exempt employees, you would also need to use the correct bitcoin value to determine the employee’s average regular rate for purposes of calculating overtime.

Even if permitted, you probably want to avoid singular payment in bitcoin because the wild fluctuations in value create minimum wage dangers. A better option is to agree to pay employees in traditional currency that is automatically converted to bitcoin (assuming the employees agree in writing to such a conversion) or pay bitcoin only as a discretionary bonus.

Another concern, as noted above, is that the IRS considers bitcoin to be property, meaning you would need to report earnings based on fair market value of that property as of the date you pay the employee. This might complicate payroll reporting, tax withholding, and capital gains and losses reporting, and create an overwhelming administrative burden for your human resources.
department. If you are intent on making this leap, you could use one of the many third-party services that are starting to emerge to assist businesses in handling these complications.

Also keep in mind that your workers may not be completely satisfied if the price of bitcoin drops precipitously right before payday. Although anyone entering into a cryptocurrency transaction should be quite aware of the hallmark volatility associated with its value, and a savvy organization will be sure to include a prominent disclaimer informing the worker about the risks of accepting such a business transaction, there could be hard feelings (and lawsuits) if a project valued in the tens of thousands of dollars is ultimately paid out at a much lower rate. This may be further exacerbated by the fact that it could take several days after a bitcoin payment is initiated before the bitcoin becomes available for use in the worker’s wallet. Similarly, any business entering into this kind of arrangement should be prepared to bear the risk of a steep increase in value that could lead to a dramatic cost spike.

Finally, it bears repeating that, regardless of how employees are paid, you must ensure that nonexempt employees are paid the applicable minimum and overtime wages. Paying wages with bitcoins, in whole or in part, may complicate the calculations necessary to ensure compliance with federal, state, and local wage and hour laws.

**Quite A Bit To Take In**

For those uninitiated to the world of cryptocurrency, this article might have been quite a bit of information to digest. But our guess is that you will look back a few years from now and laugh that there was ever a time you weren’t fluent in using bitcoin. While it may never replace the U.S. dollar, bitcoin is certainly gaining in popularity and becomes more mainstream every day. You’ll no doubt continue to hear of its use in common, daily transactions.

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