



**QUALITATIVE RESEARCH ON BITCOIN
AUTOMATED TELLER MACHINES (ATMs)
IN CANADIAN BUSINESSES
- Executive Summary -**

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SUMMARY

Cryptocurrencies, like bitcoin, are difficult to track because of their decentralized nature, which puts them beyond the reach of central banks, financial institutions, and governments. This decentralization leads to potential tax noncompliance through under-reported and unreported income and capital gains. Cryptocurrencies are also part of the new digital way of doing business. The Canada Revenue Agency (CRA) wants to understand how cryptocurrencies are changing the way Canadians do business and understand their tax obligations.

This qualitative research project explored the use of bitcoin and other cryptocurrencies through a study of Canadian business owners who have bitcoin ATMs installed in their establishments. All of the ATMs had bitcoin, and about half also had one or more other cryptocurrencies. Participants were asked about the other cryptocurrencies on their ATM, but since most of their comments pertained to bitcoin the report usually refers to the bitcoin cryptocurrency. The CRA wants to understand the reasons for introducing a bitcoin ATM into a business, the perceived value it brings to businesses and their customers, and attitudes towards tax compliance in the crypto-commercial sphere.

The primary research objectives were to explore:

- the decision process behind installation of a bitcoin ATM (e.g. personal business decision or corporate directive);
- perceptions of who uses the bitcoin ATMs;
- perceptions of why visitors to the business use the bitcoin ATMs;
- the perceived value to the business and its customers;
- the possible ways in which the bitcoin ATMs and bitcoin may be integrated into their current business; and
- any standard operating procedures in place to monitor currency exchange through the bitcoin ATM transactions and/or customers (i.e. potential knowledge/willful blindness of illicit activities).

The CRA will use the information from the research to:

- Refine audit approaches and improve risk assessment capabilities through a greater understanding of the perceived value of bitcoin ATMs.
- Enhance education efforts around bitcoin tax compliance through a greater understanding of who the business owners are and what motivates their business behaviour on financial, social, cultural and geographic levels.

Twenty in-depth individual telephone interviews were conducted between January 24 and February 9, 2018 with retail businesses that have a bitcoin ATM on the premises. The sample included participants from a variety of types of retail businesses, and from different regions of Canada. The qualified participant was the owner or a manager of the business. In one case the participant was with the head office of a chain with bitcoin ATMs at multiple locations.

This research was qualitative in nature, not quantitative. As such, the results provide an indication of participants' views about the topics explored, but cannot be statistically generalized to the full population. Qualitative research does, however, produce a richness and depth of response not readily available through other methods of research. It is the insight and direction provided by qualitative research that makes it an appropriate tool for exploring retailers' opinions and experiences with bitcoin ATMs.

Research Context

Number and distribution of bitcoin ATMs in Canada: The number of businesses with bitcoin ATMs in Canada is small, but the number has been growing. For example, from mid-December 2017 to the third week of February 2018, the number of locations increased by over 20%. The list compiled for this research had 300 businesses.

The single most common type of business location is convenience stores. The next two most common are coffee shops and bars/pubs. Beyond this, bitcoin ATMs can be found in a wide variety of types of businesses, albeit in small numbers.

Bitcoin price: The price of bitcoin in the several months prior to the research and during the research was very volatile. From the beginning of October to mid-December 2017, the price of bitcoin went from around \$5,500 to just over \$25,000. It then declined to around \$10,500 by the end of the research fieldwork on February 9, 2018.

Participant arrangement to have a Bitcoin ATM: As is typical, participants did not own the bitcoin ATM, but rather it was owned by a bitcoin ATM operator. Associated with this, the participants did not have access to details about transactions occurring on the ATM. Participants also said they do not have any obligations to try to monitor who is using the machine or the reasons why people use the machine. Their perceptions of the bitcoin ATM users are based essentially on casual observation and occasional conversations with users, and participants varied in terms of how much they paid attention to users of the bitcoin ATM in the course of their own work.

All of the participants said that their obligation to the bitcoin ATM operator is to provide electricity and internet. The majority said this was all they did. Some also mentioned monitoring to ensure the machine was physically secure and operating, or helping new users of the machine with basic instructions – staff time, interest and knowledge permitting. Only one participant was responsible for managing the cash in the bitcoin ATM; for the rest this was handled by the operator.

General assessment of participant knowledge of bitcoin and cryptocurrencies: A theory one might have about these “early adopters” of bitcoin ATMs is that they are bitcoin/cryptocurrency enthusiasts, and that this personal interest contributed to their installing a machine at their business. This in fact did not apply to most of the participants. Most put in the bitcoin ATM simply to try to help their business – the two most common reasons being to increase store traffic and to get some income from the bitcoin ATM operator. Most participants did not come across in the interview as experts or enthusiasts, nor did they describe themselves this way. Only one of the 20 participants was clearly a bitcoin/cryptocurrency enthusiast. They were personally an active trader in cryptocurrencies, and they said their “number one reason” for installing the bitcoin ATM was for their personal use (among other reasons).

Level of Usage

The majority of participants said that on average there were two to five people per day using the bitcoin ATM. There were some who said that on average there were more than five users per day, including several who said there were 10 or more users per day. The highest estimate was from a convenience store owner who said there were 20 to 30 users per day.

Some observations from participants on usage trends:

- It takes time for usage of a newly installed bitcoin ATM to build. This is because almost all users are not existing customers but rather are people who come specifically to use the bitcoin ATM. It takes time for those interested in using a bitcoin ATM to discover its location.
- Some participants commented that usage of their ATM had declined associated with drop in bitcoin price following the peak in December 2017, and that usage had built over the last few months of 2017 as the price of bitcoin increased. Participants assumed this was associated with interest in bitcoin as an investment. The participant who was a cryptocurrency enthusiast had a contrarian view: they said usage tended to increase as the price of bitcoin dropped. Again, this was seen as driven by people investing in bitcoin.

Reasons for Having a Bitcoin ATM

Initiation of the decision to install a bitcoin ATM: The large majority of participants said the decision to install a bitcoin ATM was initiated by a sales call from a bitcoin ATM operator. Some said they initiated the process to get a bitcoin ATM.

Some participants were asked what was the operator's "sales pitch." The first thing all these participants mentioned was they were told that having a bitcoin ATM would increase the number of people coming to their store, and thereby help increase store sales. The direct financial compensation from the operator did not appear to be as prominent a part of the sales pitch.

Decision factors: The two most frequently mentioned reasons for installing a bitcoin ATM were to increase store traffic and thereby store sales, and the financial compensation from the operator. Some participants said that marketing was a significant factor. One participant said the "number one" reason was personal use.

- *Increased store traffic leading to increased store sales:* Almost all participants said this was a major reason why they had the bitcoin ATM installed. All participants said the bitcoin ATM did increase store traffic. However, almost all participants also said that conversion of increased traffic to increased store sales essentially underperformed, to varying degrees, relative to their hopes and expectations. When asked whether users of the bitcoin ATM also buy products or services at the store, almost all participants said anywhere from most to all do not. Rather, the bitcoin ATM users typically come to use the ATM, and then leave. A related point is that almost none of the bitcoin ATM users are regular customers of the business.

The majority of participants said there is occasional buying at the store, but not much. Those who do buy something typically buy a small dollar value item – e.g. a coffee, or a phone card. Combining this with the number coming to the store to use the bitcoin ATM, the financial impact was seen to be small. As one participant put it, "it's not nothing", but neither is it large.

- *Financial compensation from the bitcoin ATM operator:* There were two compensation models – a fixed monthly rent, or a percentage of the transaction fees from use of the bitcoin ATM.

- Monthly rent: This was the most common arrangement, and applied to over three-quarters of the participants. The magnitude of the rent ranged from \$150/month to \$550/month. The most commonly mentioned figures were in the range of \$200 to \$300.
- Percentage of bitcoin ATM transaction fees: Four participants did not receive rent, but instead were paid a small percentage of the bitcoin ATM transaction fees. They did not state the typical dollar amount received. Two participants said that this resulted in a relatively good amount of income when the price of bitcoin was peaking and usage of the bitcoin ATM was higher, although the amounts had declined as the price of bitcoin – and ATM usage – declined. The other two participants said the amount of income received was not really significant, given their bitcoin ATM usage level and the low fee percentage.

There were indications from some participants that bitcoin ATM operators vary the compensation depending on the level of usage of the bitcoin ATM.

One participant received payment from the operator in bitcoin, while all the others received payment in Canadian dollars.

- *Marketing:* Some participants had a bitcoin ATM for marketing reasons. Marketing benefits cited included: (a) a good fit with what the business does (e.g. by technology-related businesses, (b) a good fit with trying to convey the image of being “trendy”, (c) to get media attention.
- *Personal use:* One participant, a cryptocurrency enthusiast and investor, said this was one of their reasons for getting the bitcoin ATM.

Intent to keep the bitcoin ATM: Almost all planned to keep the bitcoin ATM. The primary reason is that it brings in income to the business, mainly through financial compensation from the operator, but also for some through a small increase in sales. It is also the case that the bitcoin ATM is low maintenance (except for the one participant who handles cash stocking): all the retailer is obligated to do is provide electricity and internet.

There were, though, some participants who expressed some reservations, for one of either two reasons:

- *Undesirable clientele using the bitcoin ATM:* This was mentioned by two participants. One participant was a manager at the business who was very unhappy with the types of people using the bitcoin ATM (they used the phrase “young criminals”). The other participant said that they were having issues with clientele at one of their locations with a bitcoin ATM, and were thinking of removing it from that location (they were not having these problems, though, at any of their other locations with a bitcoin ATM).
- *If bitcoin scams become a more common problem:* Some participants had experiences with people coming to use the bitcoin ATM because of a scam. They did not view this as a critical problem at this time, but said that if this becomes more common they would consider removing the bitcoin ATM because they would not want to cause harm to their customers or come to be associated with scams.

Bitcoin ATM Users

“Come to use the bitcoin ATM”: All of the participants said that most or even all of their bitcoin ATM users are not their regular customers, but rather are new people who come specifically to use the bitcoin ATM.

Perceived demographics of bitcoin ATM users: There was no strong consensus on demographics, but two trends were: (1) more likely to be men than women; (2) tend to be younger – which meant anything from “in their 20’s” to 20-50 years of age.

Perceived reasons for using the bitcoin ATM: The perceived reasons for using the bitcoin ATM included: investing, some sort of wrongdoing, and buying bitcoin in order to buy things online with bitcoin. There is a fourth reason which is discussed separately, namely victims of scams.

- *Investing:* Almost all believe the large majority of bitcoin ATM users are using it to invest in bitcoin. This includes just over half the participants who believed this was the only reason people at their location were using the bitcoin ATM.
- *Some sort of wrongdoing:* Just under half the participants had the impression that some of the bitcoin ATM users were involved in some sort of wrongdoing. It should be emphasized that this was an impression or suspicion, not anything they knew for a fact. There were two participants who suspected the majority of people using the bitcoin ATM were involved in some sort of wrongdoing. However, most participants who suspected some sort of wrongdoing believed this involved only a minority of the users.

There were two categories of wrongdoing mentioned: suspicion of illicit activities, and suspicion of avoiding tax on legal income. Both categories were mentioned by three to five participants. There were two subcategories mentioned of avoiding tax on legal income: (a) bitcoin investors who do not pay tax on capital gains, and (b) people converting legal cash income (e.g. tips, cab fares) to bitcoin to avoid paying tax.

- *Buying bitcoin in order to buy things online using bitcoin:* A few participants said they believed that some younger users of the bitcoin ATM were using it to buy small amounts of bitcoin in order to be able to buy things online using bitcoin.

Victims of bitcoin scams: Another type of user of bitcoin ATMs is victims of bitcoin scams. Seven of the twenty participants mentioned this reason for use, and five of them had intercepted victims at their store and managed to prevent them from being scammed. In total, these five participants were aware of 16 scam occurrences.

Other participants, when asked whether they had noticed any users who might be victims of a scam, said they had not noticed anything like this, and some were not aware that there are bitcoin scams. However, it is likely there were scam victims unnoticed by the other participants. The participants who noticed scam victims said the victims did not approach them and talk about what was happening. Rather, the participants happened to notice something that looked out of place, and then proactively approached the person to ask what was going on. If a retailer is not actively monitoring bitcoin ATM users and looking for things out of the ordinary, and willing to engage with users, they would not detect scam victims.

The most commonly encountered scam involves someone pretending to be from the CRA; the other scam mentioned is someone pretending to be from the police.

There were two victim demographic profiles mentioned: (1) elderly people, and mainly elderly women, and (2) newcomers, all of whom were women.

Some participants were asked whether there were any fraud warnings posted: about half said there were warnings, and half said there were no warnings. If posted, they appear to have been posted mainly by the bitcoin ATM operator.

Reasons for using a bitcoin ATM rather than an online exchange: Some participants were asked why they thought some people use a bitcoin ATM rather than using one of the online exchanges.

Opinions included:

- A bitcoin ATM is “easier” or “more convenient” to use than an online exchange.
- A bitcoin ATM is more “trustworthy”: Some participants said that the physicality of a bitcoin ATM can make it seem more trustworthy than an online exchange.
- Transaction limits can be much higher on bitcoin ATMs than on online exchanges,

Business Use of Bitcoin

Only one of the twenty participants used bitcoin in their business, the rest did not use bitcoin or any other cryptocurrency in any way in their business.

The participant who used bitcoin in the business is the one participant in the sample who received payment from the bitcoin ATM operator in bitcoin. They used bitcoin in the business in two ways:

- They had one employee who was very interested in investing in bitcoin, and wanted to be paid at least partly in bitcoin. The participant said they used the bitcoin payment from the operator to pay part of the employee’s wages in bitcoin.
- The participant had a technology-related business, and among other things they sold cryptocurrency hardware wallets and equipment for mining. The participant said some suppliers of these goods would only accept payment in bitcoin. The participant noted that the supplies purchased with bitcoin represent only a very small percentage of the total spent on supplies for the store. Supplies are purchased with bitcoin only if there is not a choice to use Canadian dollars.

To fund the bitcoin purchases, the participant said they buy bitcoin specifically for this purpose on an as-needed basis (they do not use the bitcoin payment from the bitcoin ATM operator, since that goes to the employee).

There were basically three camps in terms of reasons for not using bitcoin in the business:

- A few participants: “never thought about it”
- Several participants: skeptical that bitcoin or cryptocurrency will ever be viable
- Majority of participants: bitcoin or some other cryptocurrency might have a role in retail at some point in the future, but not in the near future

The single biggest concern with using bitcoin was that its value is perceived to be too volatile.

Other frequent concerns were:

- Bitcoin and other cryptocurrencies are not “regulated”, by which participants meant it is risky/not safe for a business to use these currencies.
- Bitcoin and other cryptocurrencies are not supported by the banking system.

Additional concerns voiced by one or several participants:

- Bitcoin transaction fees are too large, which makes buying smaller dollar value items uneconomical.
- Bitcoin transaction times can take too long to verify.
- The business accounting systems are not set up to handle bitcoin.
- There is not enough customer demand to justify a bitcoin payment option.
- The payment service provider used by the business has not offered to support a bitcoin payment option.
- Suppliers have not asked to be paid in bitcoin.
- Bitcoin mining is not environmentally friendly because of the large amount of energy used.

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