

Anatomy of a bitcoin transaction: Buying a used Subaru

February 27 2018, by Michael Hill



In this Feb. 7, 2018, photo, a neon sign hanging in the window of Healthy Harvest Indoor Gardening in Hillsboro, Ore., shows that the business accepts bitcoin as payment. Purchases with bitcoin and other digital currencies remain rare relative to cash and credit cards. (AP Photo/Gillian Flaccus)

Bitcoins can buy you a TAG Heuer watch, a cross-country flight or a meatball marinara sub. But really, how does it work?

Purchases with bitcoin and other digital currencies remain rare relative to cash and credit cards. Many bitcoin holders value it more as an investment than a day-to-day currency.

And the complex workings behind the notoriously volatile currency can be off-putting to neophytes. What are the fees? Are there taxes? How do you spend a currency that can devalue dramatically between ordering appetizers and paying the check?

Buying with bitcoin can be as easy as tapping your phone, though there are some cautions. A look at a single bitcoin transaction, the sale of a 2017 Subaru from an upstate New York car dealer to a buyer from Virginia:

IN BUSINESS WITH BITCOIN

Eugene Rubinchuk didn't get into digital currency for the anonymity or to strike a blow against centralized banking. He was just looking for more business.

Rubinchuk and his father, who goes by "Mike the Russian," already ham it up in local TV commercials for Michael's Auto Plaza wearing furry hats. Digital currency is just another potential edge.

"It's just a way to reach customers we normally couldn't reach, that normally wouldn't think of us," he said.

The cars and truck on the lot near Albany are priced in U.S. dollars. Rubinchuk simply signed up for one of the services that allowed him to accept digital currencies if a bitcoin buyer came along.

CASHING IN CRYPTOCURRENCY



In this Feb. 9, 2018, photo, Michael's Auto Plaza general manager Eugene Rubinchuk stands in the lot of his family's business in East Greenbush, N.Y. The car dealership accepts bitcoin and several other digital currencies. Rubinchuk didn't get into digital currency for the anonymity or to strike a blow against centralized banking. He was just looking for more business. (AP Photo/Michael Hill)

Jonathan Cypert got into bitcoin early and made out well.

In 2011, he read about a 2-year-old currency skyrocketing in value and soon invested \$2,000 in computers to "mine" bitcoins for about a year and a half. That's the complicated process that rewards tech-savvy participants for verifying bitcoin transactions in its public ledger, called the blockchain.

When he started, a single bitcoin was worth around \$2.50. By the time

he was ready to buy a used, low-mileage Subaru for his wife, a bitcoin was worth over \$14,000.

The 32-year-old Virginia resident sees his bitcoin cache as a nest egg to tide him over after he retires from the military. (Wary of attracting scammers, Cypert requested that his hometown and military branch not be made public). The purchase gave him a chance to recoup his investment many times over with a fraction of his cache.

"At this point it's like, why not?" Cypert said. "I might as well realize some of that gain."

BITCOIN BARGAINING

Rubinchuk and Cypert talked on the phone the evening of Jan. 2 and settled on a sale price on the Subaru WRX STI of \$34,640.

Then they had to agree on what that equaled in bitcoins judging by the exchange rates that moment. Tracking bitcoin prices on their screens, the pair agreed to proceed with one bitcoin equaling about \$14,755. Cypert sent 2.34790481 bitcoins from his personal electronic wallet to the public address of Rubinchuk's wallet.

Cypert also paid a network fee of about \$3.50, money that goes to reward miners and keep the system running.

Then Rubinchuk watched bitcoin's value go up and down as he waited to convert his digital money into dollars.



In this Friday, Feb. 9, 2018, photo, Jonathan Cypert stands in front of his wife's 2017 Subaru Impreza, in Virginia, that he purchased with bitcoins he acquired in 2011. Cypert sees his bitcoin cache as a nest egg to tide him over after he retires from the military. (AP Photo/Steve Helber)

BLOCKCHAIN BLUES

Rubinchuk wanted to convert quickly in case bitcoin's value suddenly dropped against the dollar, costing him money. The fear is well-founded, since bitcoin's value can gain or lose more than \$400 in a half-hour.

But the digital currency service he uses required him to wait for multiple confirmations from the bitcoin network before he could convert it into dollars, a process can be affected by network congestion and other factors. Rubinchuk recalls waiting about 30 to 45 minutes.

"I'm sitting there on pins and needles checking every five minutes if it's available," he said.

Rubinchuk converted the sale into dollars with bitcoin just slightly below where it was at the time of the sale earlier that evening. He made about \$7 less than the sale price.

The money was in his business's bank account within 48 hours.

Rubinchuk soon after signed up for a separate merchant account through another provider that assesses him a 1 percent fee on all transactions, insulating him from short-term volatility. He compares it favorably to credit card fees that run 2 to 3 percent for merchants.

KEEPING IT LEGAL

Digital currencies are notoriously used by criminals to transfer funds anonymously. But Rubinchuk told the tax collector about this transaction.

In a standard IRS form for cash payments over \$10,000, he reported the money he received, from whom it came and the fact that it originated "via bitcoin."



In this Feb. 7, 2018, photo, Jeff Hanzlik delivers a presentation about bitcoin at a bitcoin meet-up group at a restaurant in Hillsboro, Ore. Hanzlik, of Portland, was an early adopter of bitcoin and uses it to make purchases online and in stores. (AP Photos/Gillian Flaccus)

Cypert avoided sales tax under a federal law covering service members that lets him retain his official residency in Alaska, which does not have a sales tax.

But he will pay taxes on a long-term capital gain.

YOUR TIME MAY VARY

Bitcoin miner fees have dropped markedly this year, and advocates say congestion issues are being solved by new technologies. Rubinchuk

waited about 15 minutes to make a dollar exchange last week for his second bitcoin sale, a 2016 Hyundai Elantra.

And recently in Hillsboro, Oregon, Jeff Hanzlik bought \$288 worth of marijuana-growing supplies from a store in a transaction that took a few minutes to finalize. He transmitted 0.03305451 in bitcoins from his phone, which read a code on the merchant's tablet. The same phone app allowed Hanzlik to choose to pay about a quarter in fees.

"Once you understand what this technology is and this genie's out of the bottle, you're not going to have any choice but to be using it in the future," Hanzlik said.

But the bitcoin network at this stage is still not well suited for smaller, everyday transactions, said Christian Catalini, founder of the Massachusetts Institute of Technology's Cryptoeconomics Lab.

"If you're thinking about paying for coffee in bitcoin, that's not what it's good at right now," he said. "Things can change."

© 2018 The Associated Press. All rights reserved.

Citation: Anatomy of a bitcoin transaction: Buying a used Subaru (2018, February 27) retrieved 27 April 2024 from <https://phys.org/news/2018-02-anatomy-bitcoin-transaction-subaru.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.