

The Pierson Firm Presents
TPF Tips
Issue 04 – APRIL, 2024

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Welcome to TPF TIPS our monthly newsletter where we apply our over 30 years of experience to cut through the noise, select what is relevant, unpack the jargon and offer clear, digestible insights to topics important to our clients.

We know your time is precious and your inbox sacred so, we strive to make these emails an easy read (5-7minutes) and plan to deliver TPF TIPS on or around the 15th of each month (subliminal plug for tax preparation).

If, for some reason; you do not wish to receive the monthly newsletter, please do not unsubscribe. Rather, please reply to the email with the word UNSUBSCRIBE in the subject line. We will make sure to remove you from the newsletter list but, keep you subscribed to our other emails regarding important financial deadlines, events and other critical updates you will want to know about.

Welcome to another edition of *TPF TIPS*, where we apply our over 30 years of experience in tax and accounting to cut through the noise, select what is relevant, unpack the jargon and offer clear, digestible insights to topics we feel are relevant to pay attention to.

The theme for today is:

“Decoded: venturing into the world of digital currency, cryptocurrency & artificial intelligence (AI).”

Our world is being transformed right before our very eyes, and in this issue; we provide a glimpse into what these terms mean, explore their potential impact and even delve into the surprising ways the IRS is leveraging AI.

After all, it’s your money and we want you keep as much of it as you can!

So, put on your VR (virtual reality) goggles and let’s get to it!

Digital Currency vs. Cryptocurrency: Unpacking the Jargon

It’s always good to start with a baseline so, we’ll kick things off by clarifying two of the most commonly used terms that are often used interchangeably, yet have key differences - Digital currency and Cryptocurrency.

Digital currency is the broader term that encompasses any form of money that exists solely in electronic form, while cryptocurrency is a specific type of digital currency with some distinct characteristics.

Digital currency can be issued and controlled by governments, banks or even private companies; and is essentially electronic money that can be used for payments.

Examples are bank accounts (issued, controlled and protected by banks and the Federal Reserve) and rewards/loyalty points (issued and controlled by airlines, retailers, credit card companies, etc.).

Cryptocurrency, on the other hand, is noted for being decentralized, with no single entity controlling its creation or management. It relies on a global network of computers to verify transactions and utilizes cryptography (a complex form of encryption) to secure transactions and protect from fraud and counterfeiting.

The Digital Revolution

So, why all the buzz about digital currencies and cryptocurrencies?

Here are some of the more popular reasons:

- Imagine instant, global transactions without bank fees or limitations.
- Cryptocurrencies use incredibly complex cryptography for secure transactions.
- Blockchain technology provides a transparent record of all transactions in the world of cryptocurrency.
- Digital currencies and cryptocurrencies have the potential to revolutionize (and disrupt) financial systems and institutions.

As with any “revolution” there are concerns and things to be mindful of.

Let's note a few:

- Unlike cash in your pocket, digital currency can be outside of your immediate control. Imagine how you feel when the power unexpectedly goes out. Can you imagine the feeling if access to your money was unexpectedly turned off? Or even worse, wiped out?
- Digital currencies and Cryptocurrencies can experience wide value swings. The notion of investing in something that could be worth twice as much tomorrow but half as much next week is unsettling for some.
- The lack of clear regulation creates uncertainty. Governments and controlling entities are still figuring out how to tax, manage and potentially even create their own digital currencies.

Remember, whenever new ways of making money emerge, there are always those trying to figure out how to get a piece of the action.

AI: The Soul of the Machine

Now, let's talk about the invisible force shaping the future of finance and many other areas of everyday life: Artificial Intelligence (AI).

AI is essentially computer programs that can learn and act like humans in some ways.

In the financial world, AI is already making waves by:

- **Detecting Fraud:** AI algorithms can analyze vast amounts of data to identify suspicious transactions in real-time.
- **Personalized Finance:** AI can personalize financial products and services based on individual needs and goals.
- **High-Frequency Trading:** AI-powered algorithms can execute trades at lightning speed, capitalizing on the slightest of market fluctuations.
- **Virtual Assistants and Chatbots:** AI-powered assistants can answer sophisticated questions on many topics and can even provide personalized advice.

For all the potential good AI offers, there are legitimate ethical implications and development safeguards to be considered. As with any burgeoning technology, it should be used responsibly and should be considered as an impartial, reliable tool.

Below are a few current concerns:

- **Bias and Discrimination:** AI algorithms learn from data sets. If the data used to “train” the algorithms is biased, the AI system may perpetuate discrimination in almost any area. Some early examples have already been revealed, much to public dismay.
- **Privacy:** AI systems often require detailed personal information to produce unique personal recommendations. This collection of information raises concerns about data privacy and potential misuse of sensitive information.
- **Super-Intelligence and Existential Risk:** Some experts warn of the potential for AI to become super intelligent, surpassing human intelligence in all aspects. This raises the hypothetical question of whether such an AI would be benevolent or pose an existential threat to humanity.

Some favorite cinematic examples to check-out that explore this question are:

- 2001: A Space Odyssey
- iRobot
- Ex Machina
- SuperIntelligence

IRS and AI: Friend or Foe?

The IRS has announced broad AI initiatives. The intent is to use AI to streamline processes, improve tax collection, and even identify potential tax fraud. In some cases, early forms of AI are already in use.

Here's what the IRS's use of AI could mean for you:

- **Faster Processing:** Automate review of tax returns, potentially leading to faster refunds.
- **Improved Accuracy:** Analyze complex data patterns to efficiently identify errors in filings.
- **Fraud Detection:** Flag suspicious activity and prevent fraudulent tax claims.

However, some concerns with the IRS's use of AI exist:

- **Privacy Issues:** With AI analyzing personal financial data, questions arise about privacy and potential misuse of information.
- **Algorithmic Bias:** AI algorithms can perpetuate biases, leading to unfair targeting of certain taxpayers for audits.

The Future's So Bright???

The world of digital currency, cryptocurrency, and AI is rapidly evolving. It's a landscape full of possibilities and challenges.

The best way to navigate a questionably bright future is to stay informed (and wear sunglasses). Here is some helpful advice on how to stay smart and be safe:

- **Do Your Research:** There's a wealth of information available online and through financial institutions. Always cite reliable sources on the internet. As Abraham Lincoln said: *“The problem with information on the internet is, you never know if it's genuine.”*
- **Start Small:** If you're curious about cryptocurrency, consider investing a small amount to learn the ropes.
- **Be Cautious:** Be wary of scams and unrealistic investment promises.
- **Stay Updated:** This newsletter will keep you informed about the latest trends and developments.

Remember, knowledge is power. By understanding these evolving technologies, one can make informed decisions, invest wisely and participate in an educated way.

We would like this newsletter to evolve beyond just information – we would like it to be a conversation. Let us hear from you! Share your questions, concerns, and topics of interest and we will do our best to accommodate.

Your feedback helps us tailor content that truly resonates with your needs and goals.

*Warm regards,
Gladys*

About The Pierson Firm

Conroe-based *The Pierson Firm* offers a comprehensive range of tax-related services to individuals and businesses alike; and have been doing so for over 30 years. From Tax Planning, Preparation & Representation to Business Operations, Advisory and Compliance, the firm provides personalized solutions to those around the block or around the globe. Additional company information can be found by visiting www.thepiersonfirm.com.



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