


# Chapter 1

## The Impact of Blockchain Technology on Tax and Accounting Practices

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### **ABSTRACT**

*Introduced to the agenda of the world in 2008, blockchain has been researched and reviewed in both the public and the private sectors, interpretations have been made regarding the future of the technology, and it has been endeavored to determine potential areas of application. Blockchain is predicted to be applied in many areas such as the financial sector, smart contracts, and the public sector, and its benefits are expressed. The application introduces accounting and taxation based on blockchain technology, transparency, convenience in transactions, time saving, concurrent taxation, effective and continuous auditing. By applying this technology in the area of accounting and tax auditing, errors and particularly frauds shall be prevented accordingly. Within this framework, at the outset of this study, the blockchain technology is introduced, and the impacts thereof on the accounting and taxation are addressed accordingly. Blockchain technology is expected to have impact on the accounting entry process, tax practices, accounting profession, accounting professionals, and the taxpayers.*

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## **INTRODUCTION**

The developments and advancements in the area of e-transformation in recent years have led to the requirement for certain innovations to be emerged in the area of technology. From this point forth, the blockchain, as a recording medium, has started to be used in different areas with the possibility of storing information without the requirement for a central institution. Blockchain refers to a technology offering a substantial potential in terms of safe execution of tax transactions and keeping accounting entries. Thanks to this technology, transactions are performed with a distributed database in where the records of information blocks daisy-chained are stored. The management and control authority of the system in the blockchain are distributed to a computer network.

Despite the fact that the point of origin of the blockchain and the most substantial area of use thereof are the Bitcoin and Ethereum, various practices are available in many areas such as the finance sector, public sector and smart contracts. It is a highly featured innovation offering a great variety of benefits with its automatic and highly secured record keeping, recording and tracking the ownership of assets with ease, providing information flow without intermediaries, and performing automatic transactions with smart contracts.

Blockchain technology has the capacity of influencing the accounting and tax practices and transforming thereof to develop positively. In this study, information is provided on the blockchain technology and the impact thereof on the areas of accounting and taxation is addressed accordingly.

## **DEFINITION AND PROPERTIES OF BLOCKCHAIN**

Blockchain is among the most substantial and breakthrough innovation and development of today's developing world. Blockchain is an English-based concept. It is formed by the combination of the words; "chain" and "block". The concept of blockchain derives its name from the logic of operation and functioning. The blockchain is simply a database containing encrypted information, however, varies from a standard database.

Although it is a new formation in the globalizing world, the blockchain application is a technological breakthrough offering a great variety of benefits and having the potential to rapidly develop in a short span of time and affect the businesses. Blockchain technology has primarily been started to be used in the finance sector and then substantially contributed to the development of the sector. The application areas of the blockchain include various formal and informal processes and transactions from the banking to notarial transactions and the smart contracts. Thus, radical

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