

# Israel to become a bitcoin lab



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Blocks away from the Tel Aviv Stock Exchange and the headquarters of two major banks, in the corner of the lobby of a boutique hotel, Nimrod Gruber sticks his hand into an ATM.

A few seconds later, a QR code prints out. Gruber takes the slip of paper and walks away, no cash in hand.

He's not worried. He owns the ATM, and there's nothing like it in the Middle East. It identifies users by scanning their palms, and instead of dispensing dollars, euros or shekels, it dispenses Bitcoin.

“ It shows up in your account in 30 seconds, a minute,” he said.

As Bitcoin has gained value over the years, an ecosystem of startups and organizations has taken shape in Tel Aviv to promote its use in Israel's tech scene.

“ Here we adopt new technology earlier than other places,” said Gruber, 28, a former model who became involved in Bitcoin technology during a stint living in New York City.

“ It makes sense that this would be a Bitcoin center. We're at the heart of the high-tech area and the Tel Aviv financial district.”

Called a “ cryptocurrency” because it is secured by encrypted data, Bitcoin itself could be best described as cryptic. Its reputed inventor, who goes by the name Satoshi Nakamoto, has communicated only by email. Unlike mainstream currencies, Bitcoin isn't backed by a government or central bank and has no physical form.

Instead, it exists in computer code, and its value is determined purely through supply and demand in online exchanges where Bitcoin holders buy and sell it for other currencies. People can “ mine” new Bitcoins by performing complex calculations on their computers.

Bitcoin has encountered a host of issues in its development, from the question of government regulation to use for illegal activities to a volatile growth pattern.

The ups and downs haven’t deterred Israeli Bitcoin believers, who expect growth ahead and say the currency will stabilize as more people adopt it.

Dozens of startups have proliferated around Bitcoin use in Israel, and more than 120 Israeli businesses, from restaurants to real estate firms, accept Bitcoin as payment.

“ I hope we can make Israel a lab for Bitcoin,” said Ayal Yona Segev, an “ ambassador” at Bitcoin Embassy, which provides guidance and acts as a meeting spot for Israeli Bitcoin entrepreneurs a few blocks from Gruber’s ATM. “ We have the flexibility to become a place where we test and develop everything.”

The ATM in the hotel hooks up to an online exchange. Users can log in to their accounts and either deposit cash to buy Bitcoin or sell Bitcoin and receive cash. Similar ATMs already exist in the United States, Canada and Europe.

Gruber hopes the ATM will be one of many in Israel. He jokes about placing one in the middle of the divider between men and women at the Western Wall.

Another Israeli startup, Colored Coins, allows users the opportunity to trade other currencies online using the Bitcoin code.

BitcoinBox offers Bitcoin holders insurance for their “digital wallets.” Coin Commerce offers businesses a service to accept Bitcoin as payment.

“We have a good community here,” said Aaron Aguillard, founder and CEO of Coin Commerce. “What Coin Commerce is trying to do is set up Tel Aviv for the tourist season so people can buy Bitcoin and travel around Israel, and book hotels and use Bitcoin on the beach.”

Israeli Bitcoin entrepreneurs see the currency as a practical tool as well as an ideological dimension to their work. Segev’s office sells Bitcoin-themed T-shirts and bumper stickers, one of which writes out Nakamoto’s name in a style of chant traditionally used to celebrate the Hasidic sage Rebbe Nachman of Breslov.

Segev says that in addition to Bitcoin’s startup nature, it appeals to Israelis who took to the streets three years ago in massive numbers to protest income inequality. He calls it an alternative for people who are mistrustful of their banks and tired of high credit card fees.

“It will make people aware of the current situation” in Israeli banking, Segev said. “This is an alternative that will make service providers — banks, the state, insurance companies — compete for customers.”

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Bitcoin's regulatory status remains unclear. The Internal Revenue Service in the United States taxes Bitcoin profits as a capital gain, but Israel only taxes income made from Bitcoin once it is transferred into shekels.

In February, the Bank of Israel issued a warning regarding Bitcoin, noting that it isn't backed by any state, is unsupervised, and could be susceptible to manipulation and criminal use.

But Avi Nov, an Israeli international tax law expert, says the legal concerns will fade as Bitcoin expands and that regular currencies also carry risk.

“ The risks are greater in the regular world than in the digital world,” he said, adding that “ nobody knows if tomorrow a state or a bank will fail.”