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Does Crypto Tracing Work?

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Crypto tracing is how specialists sort through and track down crypto transactions. This process is said to work even when individuals use tools like Bitcoin mixing to hide their tracks. At the heart of a case coming to trial in February 2024 is this question. Does crypto tracing work or is it “unscientific and unreliable”? The stakes are very high for Roman Sterlingov who authorities say was the brains behind the Bitcoin Fog mixing service. Bitcoin Fog helped launder millions of BTC and Sterlingov faces serious jail time if convicted. No matter how the trial turns out, we are interested in knowing the extent to which assets on the blockchain are really private or totally transparent to those with the right tools. Does crypto tracing work and could that cause problems for you?

Crypto Privacy Paradox

When Bitcoin, and thus crypto, was invented the idea was to provide an efficient way to buy and sell over the internet. The system set up on the blockchain was supposed to allow for monetary transactions free of middlemen and government interference. However, problems arose such as the use of crypto for money laundering. Thus the technology was developed to track crypto transactions. Crypto transactions do not have one’s name attached to them like a bank account does. But they are available for all to see on the blockchain. While your banking information is only held by you and your bank, the government can see it if the need arises. For example, the IRS can go to court to get your bank records if they suspect fraud. At the current time there is no such way for the government to get access to your crypto wallets. But it turns out that they do not need to.

Crypto Tracing Software

There are many parts to the crypto tracing puzzle. Crypto sleuths use web scraping, attribution data, transaction mapping, identification of address clusters, IP address tracking, and identification of high value addresses in their quests to identify crypto laundering. Because the blockchain is open for anyone with an interest and the tools, the issue is more one of processing huge amounts of data than any magical code that identifies crypto problems. Machine learning algorithms (artificial intelligence) is part of this puzzle as these programs become able to process and make sense of more and more data.

Isn’t Crypto Anonymous?

Within the blockchain system transactions are anonymous. However, transactions by any anonymous party on the blockchain can be tracked. This happens even when folks use things like Bitcoin mixing to cover their tracks. What is not anonymous is when someone cashes out their crypto to get dollars, euros, or yen. Crypto exchanges are obliged to follow Know Your Customer (KYC) and Anti-Money Laundering (AML) rules. Thus an exchange should have a person’s name, phone number, email address, IP address, and social security number. Very commonly arrests are made after investigators wait patiently for years until someone cashes out their

Bitcoin. This is the point at which the IRS wants you to pay capital gains taxes on crypto profits. And it is the point at which investigators following illegal crypto assets pounce.

Is Crypto Tracing Rocket Science?

In science, including computer and blockchain science, there are concepts that are difficult to understand. But there are more commonly many, many interconnected easy concepts and bit of information that need to be tracked, analyzed, and connected together. This is largely the case with crypto tracing. It is a game of patience, collecting lots of data, and connecting the dots. It does work providing that an interested party has the time, patience, and assets to follow the task through to completion.

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