

Taxation of Cryptocurrency Transactions



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How to get on a list at the IRS

11 13. The IRS searched the MTRDB for Form 8949 data for tax years 2013 through 2015. 1
12 received the results of those searches. Those results reflect that in 2013, 807 individuals reported a
13 transaction on Form 8949 using a property description likely related to bitcoin; in 2014, 893 individuals
14 reported a transaction on Form 8949 using a property description likely related to bitcoin; and in 2015,
15 802 individuals reported a transaction on Form 8949 using a property description likely related to
16 bitcoin.

Declaration of David Utzke in Support of Petition to Enforce Internal Revenue Service Summons, *U.S. v. Coinbase, Inc.*, Case No. 17-cv-01431-JSC (N.D. Ca. Mar. 16, 2017).

What are cryptocurrencies?

- Digital money transferred from one person's private electronic wallet to another's
- Not chump change:
 - 2116 different cryptocurrencies
 - Market value: \$120 BILLION
 - \$16 billion traded yesterday

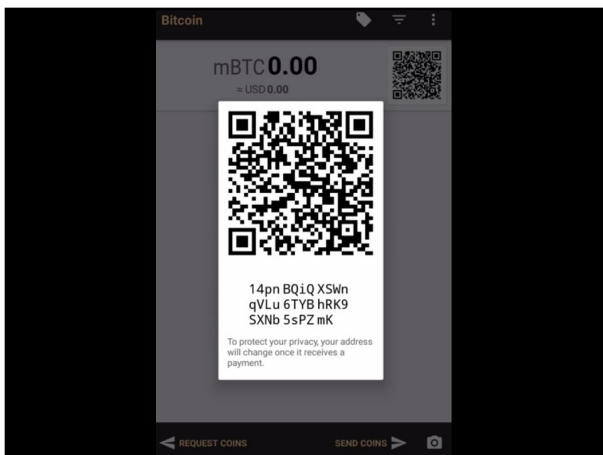
"All Cryptocurrencies," Coinmarketcap.com, accessed 1/20/2019

Getting/disposing of coins

- “Mine” them
- Offer/accept for goods or services
- Buy/sell on an exchange
- Receive/give as a gift
- Trade for other coins

Where are coins stored?

- Privately hosted wallets
 - Online (internet connected device)
 - Offline (paper)
- Third-party hosted wallets



IRS guidance

- **IRS Notice 2014-21**

- 🙄 *shrug emoji*

IRS Notice 2014-21, paraphrased

Q-1: Who won the bet on currency vs. commodity vs. property treatment?

A-1: Team Property. For federal tax purposes, virtual currency is treated as **property**.

IRS Notice 2014-21, paraphrased

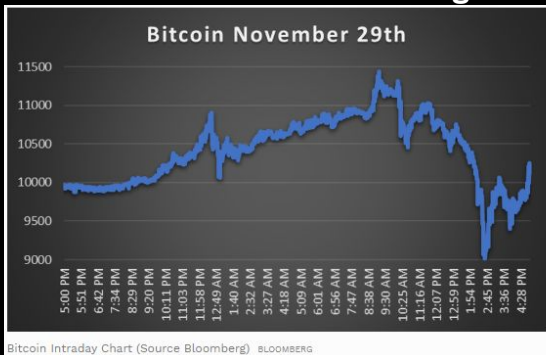
Q-3: When you said I have to include in gross income "all income from whatever source derived," did you really mean *all income*?

A-3: Yes. Include the FMV of the virtual currency as of the date that the virtual currency was received.

IRS Notice 2014-21: FMV

“If a virtual currency is listed on an exchange and the exchange rate is established by market supply and demand, the fair market value of the virtual currency is determined by converting the virtual currency into U.S. dollars (or into another real currency which in turn can be converted into U.S. dollars) at the exchange rate, in a reasonable manner that is consistently applied.”

24 hours on 1 of 230+ exchanges



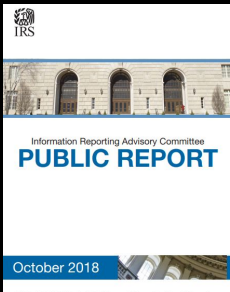
IRS Notice 2014-21, paraphrased

- **“Mine” them:** self-employment income
- **Offer/accept for goods or services:** wages, self-employment income, information reporting of payments with backup withholding

IRS Notice 2014-21, paraphrased

- Buy/sell on an exchange: ST/LT capital gain/loss if held for investment
- Receive/give as a gift: silent - track your basis
- Trade for other coins: ☞ **shrug emoji**

Shade from IRPAC



“While we acknowledge and thank the IRS for publishing Notice 2014-21... many industry and tax practitioners still question other tax consequences of cryptocurrency transactions.”

Unanswered Questions

- Could crypto be a specified foreign financial asset?
- Does broker reporting apply?
- Can crypto be held in an IRA?
- Is crypto a security subject to wash sale rules or mark to market accounting?

Unanswered Questions

- Can users determine basis/gain with LIFO or FIFO?
- Is crypto for crypto a like-kind exchange?
- HOW AM I SUPPOSED TO TRACK THIS STUFF?

Blockchain Explorer

[<< Previous Blocks mined on: 25/10/2017 Next >>](#)

Height	Time	Relayed By	Hash	Size (KB)
491716 (Main Chain)	2017-10-25 20:18:39	Unknown	000000000000000000001b0af8957ca451bc0370514234236933cca96c079ec	1,046.12
491717 (Main Chain)	2017-10-25 20:10:13	Unknown	000000000000000000000465fab3ba6202979459661650ff80d65198955809a8	1,002.46
491716 (Main Chain)	2017-10-25 20:08:15	Unknown	000000000000000000002080ba0999c697ac76332d9f86a20794789e95ac2882	1,006.84
491715 (Main Chain)	2017-10-25 20:06:50	Unknown	00000000000000000000096519b770e6a209567d81941215346c7465e1033636	1,051.57

TXID	Relayed By	Hash	Time	Amount
9630396207d787709eae911401d961c14f5c210ae2194194c1f			2017-10-26 20:13:01	
1HkggT5iVAuZu4W4HCBZ2Y4ZLR0RP48By8	15ud8aV93zc5D (jQRZ2heqTmTCC4KH)	1Wjms9tqoA0qS3JUAiYxgF_x05AU4HpQ		\$ 410.07 \$ 71,251.20 \$ 71,661.26
0818302364979c3d37689f48402145c9341041c4787196a98d79			2017-10-26 20:17:03	
164qguLj18mM7hmadCLuRP8dM5STT8x	1C9kCh7Eh7n26B_z8A9hwGhONZTvea4fgt	16inQV5oaZp2j9kQ2j9HyvH2u4NRN2jZy6		\$ 11,342.26 \$ 82,576.93 \$ 93,919.19

Q&A

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