

Cryptocurrency (a.k.a. Virtual Currency)



A recent survey by the Pew Research Center estimates that 16% of Americans have bought or traded cryptocurrency. However, many taxpayers are not correctly reporting cryptocurrency on their tax returns. The IRS knows this and now requires taxpayers to answer a yes/no question on their tax return regarding their cryptocurrency activities.

Let's take a look at what is required by the IRS and explore what you can do to comply with the rules.

What does the IRS require?

Simply stated, if you earn or sell cryptocurrency you must report it on your tax return. The details of the actual tax forms and schedules are beyond the scope of this fact sheet. Rather, let's focus on what to prepare for your tax appointment.

What will you need for your tax appointment?

Unlike regular brokerage accounts, most cryptocurrency accounts do not provide 1099-B tax documents. Therefore, it is up to you to keep track of gains/losses. Keep ledgers with details about every acquisition or sale of cryptocurrency. It is wise to keep separate ledgers for 'earning' and 'selling' cryptocurrency because they have different tax treatments.

For <u>earned</u> cryptocurrency record the following:	For <u>sold</u> cryptocurrency record the following:
<ol style="list-style-type: none">1. Name of the cryptocurrency received (e.g. Bitcoin, Ethereum, Litecoin, etc.).2. Number of coins/tokens earned.3. Date coins/tokens were earned.4. Price per coin/token (in dollars) at the time the shares were earned.5. Describe how you earned the coins/tokens. For example, did you perform a service? Was the service part of a for-profit business? Did you receive coins/tokens as a promotion (sometimes called an "airdrop"). Etc.	<ol style="list-style-type: none">1. Name of the cryptocurrency sold2. Number of coins/tokens sold.3. Date coins/tokens were sold.4. Proceeds from the sale.5. Brokerage fees paid for the sale.6. Date coins/tokens were originally acquired.7. How the coins/tokens were originally acquired (earned vs. purchased).8. How much you originally paid for the coins/tokens. Note: If the coins/tokens were earned, record their dollar value at the time they were earned.

How to avoid complications?

- Before you start trading, ask the trading platform (e.g. Coinbase, Binance, Kraken, Robinhood, etc.) if they will provide 1099-B forms showing your cryptocurrency proceeds and cost basis. If yes, it will make getting your taxes done easier.
- Trade on just one platform and avoid transferring coins/tokens from one platform to another.
- Make fewer transactions and avoid purchasing things with cryptocurrency. Each purchase, no matter how small, is a taxable event.
- Explore alternatives to owning cryptocurrency directly. For example, there are funds that invest in assets that provide exposure to cryptocurrency. As always, work with an investment advisor to understand the opportunities, options, and risks (which are beyond the scope of this fact sheet).