

Year-End Tax Planning For Cryptocurrency Transactions - Tax Planning

As millions of investors dabbled in cryptocurrency this past year, the IRS has heightened its surveillance of transactions in order to tax gains. The pending infrastructure bill in Washington, Build Back Better, contains an entire section on identifying and taxing gains on cryptocurrency transactions. The rapid and extensive emergence of cryptocurrency transactions has brought about uncertainty surrounding taxing transactions as an asset, similar to a stock, rather than a currency. Some cryptocurrency trading platforms also pay interest on lended digital currency positions, creating yet another tax liability on the interest earned.

Since the federal government sees a tremendous tax revenue opportunity in taxing digital currency transactions, the IRS has already started to issue tax ramification guidelines applicable to such transactions. The U.S. government expects to raise about \$28 billion over the next ten years by tracking and taxing transactions. Digital wallets, which hold crypto currencies, may be required to report holdings and transactions to the IRS, similar to traditional financial institutions. The IRS also plans to crack down on taxpayers not reporting gains from crypto transactions, as noted on the most recent IRS tax return forms. Some crypto trading platforms intend to start issuing 1099-Misc and 1099-K forms in order to comply with IRS reporting requirements.

As consumers become more comfortable with making payments with digital currencies, each transaction may become a taxable event. The ability to store cryptocurrency in a digital wallet, then use it for a purchase, may trigger a tax consequence if the currency is sold at a gain in order to make the purchase. The IRS is expected to require platforms providing digital wallets to maintain the cost basis on all currency transactions. Should a 1099 form not be issued by the digital currency platform used, then the IRS is suggesting that taxpayers maintain a record of all purchases and sells in order to properly report any taxable gains or losses.

Sources: IRS

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