

## **VIRTUAL/CRYPTO CURRENCY REPORTING REQUIREMENTS**

In 2014, the IRS issued Notice 2014-21 which deals with transactions involving virtual currency. Virtual currencies include digital and cryptocurrencies such as Bitcoin, Ripple, Litecoin, etc.

The Notice made clear that virtual currencies are to be treated as property, not as foreign currency, under the income tax code. Thus, all sales, exchanges, redemptions, and transactions involving all virtual currencies are taxable.

The IRS has reason to believe that taxpayers have not been reporting their virtual currency transactions as transactions on their income tax returns.

Starting in 2015, the IRS issued John Doe summons to Coinbase, a US Based virtual currency wallet. Coinbase has turned over the information on all US customers who had more than \$20,000 in transactions for the years 2013, 2014, and 2015.

The IRS has used that information to issue letters to Coinbase customers, which include language regarding the Fraud Penalty and Criminal Prosecution.

The IRS is taking a harsh position on taxpayers who have not reported their airdrop acquisitions, sales, trades, and redemptions of virtual currency. The IRS is not contemplating a Voluntary Disclosure Program in order to mitigate the taxpayer's penalties or interest for late or non-reporting of their virtual currency transactions. In addition, the IRS is reminding taxpayers of the consequences of not reporting their virtual currency transactions, which can run to penalties and interest, and given enough non-reported income, **criminal prosecution** for tax evasion.

There is no statute of limitations for income that is not reported on a taxpayer's timely filed return.

As such, if you have ever purchased, held, acquired, gifted, sold, traded, or transacted in any way with virtual currency, we are recommending that you immediately:

- Download into an Excel spreadsheet ALL transactions from every exchange that you have used to hold, receive, or trade your virtual currency
- Contact this office to determine your exposure to penalty, interest, and tax

Please let us know if you have questions.