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Tax Issues of Cryptocurrency

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THE 30-SECOND ANSWER

With the exception of wash sale rules, cryptocurrency is taxed like stocks

I have been billing in bitcoin/hour and receiving only bitcoin as payment

- Client's taxable events
- My CPA firm's taxable events
- My personal taxable events from distributions

"What makes tax loss harvesting in cryptocurrency particularly attractive to investors is that the celebrated 'wash sale' rule, which disallows losses for tax purposes from the sale of certain assets when the taxpayer has purchased the same asset within 30 days before or after the sale, has not been applied to crypto asset transactions during the period of our study."

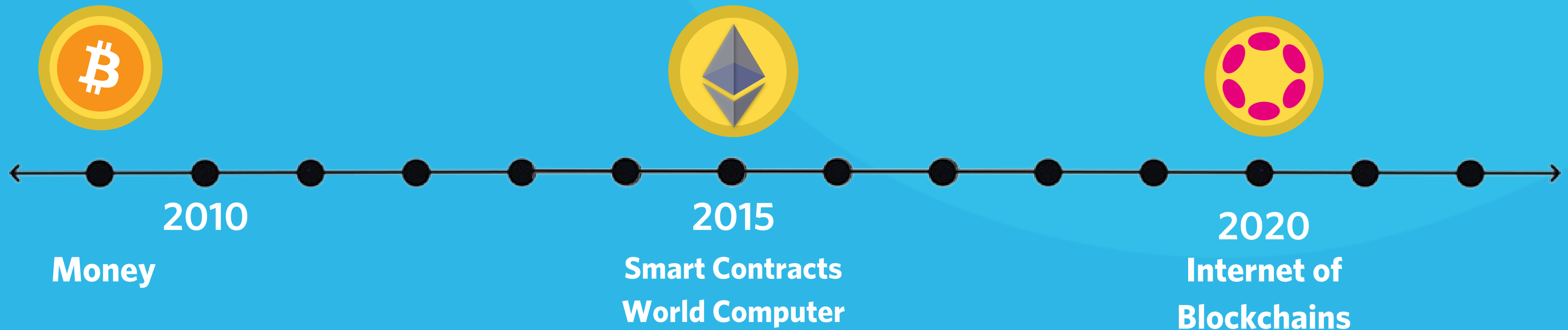
- Tax Loss Harvesting with Cryptocurrencies by Cong, Landsman, Maydew, and Rabetti

Electronic copy available at <https://ssrn.com/abstract=4033617>

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SO WHAT'S THE FUSS?

Bitcoin is just the beginning of the innovation



The logistics of buying alt coins, for example, makes record keeping expensive for the little guys

- Global marketplaces/exchanges
- No like-kind exchanges
- Cost basis methods
- Forks and airdrops
- Staking (passive vs redeemed)

Jarrett v. United States

- Jan 25, 2022: "rejected refund offer, as the IRS had given no assurances on the future treatment of crypto staking rewards"
- Government objected to "immense public importance"
- "Specifically [pled] for injunctive and forward-looking relief"
- "Proportionate rewards results in zero economic gain"

Another Staking Interpretation

- **Conservative Position: Ordinary income - active trade or business income**
- **Moderate Position: Ordinary income - portfolio income**
- **Aggressive Position: Selling staking rewards triggers capital gain**

The IRS is sees cryptocurrency as a dirty dozen (June 10, 2022 irs.gov)

"Concealing Assets in Offshore Accounts and Improper Reporting of Digital Assets:

The IRS remains focused on stopping tax avoidance by those who hide assets in offshore accounts and in accounts holding cryptocurrency or other digital assets."

The 1040 checkbox is not welcoming

2020: At any time during 2020, did you receive, sell, send, exchange, or otherwise **acquire** any financial interest in any virtual currency?

2021: At any time during 2021, did you receive, sell, exchange, or otherwise **dispose** of any financial interest in any virtual currency?

The 1040 checkbox is not welcoming

2022 (Draft): At any time during 2022, did you: (a) receive (as a reward, award, or compensation); or (b) sell, exchange, gift, or otherwise dispose of a digital asset (or a financial interest in a digital asset)? (See instructions.)

Crypto Tax Software that Doesn't Exist Anymore

- **LibraTax**
- **TaxToken**
- **Bitcoin.tax**

Coinbase did not have clear reporting even just two years ago

- Here is what you can currently expect from clients from these two large institutions as of 2021

Gain / Loss report

Jen G | dca24084-afa4-552b-be0c | jenz@gmail.com

About report

This report includes all taxable activity with realized gains or losses. For US customers, Sells and Converts are taxable events that realize gains. This report does not include taxable events like Staking or Coinbase Earn that result in income. For final tax obligations, please consult your tax advisor.

Report legend

Short-term

The tax you pay on capital gains or losses depends on how long you hold the asset. If you hold an asset for 1 year or less, you pay the short term capital gains tax rate.

Long-term

The tax you pay on capital gains or losses depends on how long you hold the asset. If you hold an asset for 1 year and 1 day, or longer, you pay the long term capital gains tax rate.

Proceeds

The amount of money you received when you sold your cryptocurrency. If you received USD in exchange for your cryptocurrency then the cash you received is your proceeds. If you exchanged one cryptocurrency for another it will be the dollar value of the crypto you received.

Summary

Cost Basis Method: FIFO

Data source	Long-term	Short-term	Total gains/losses
Coinbase	None	-\$784.95	-\$784.95
Total	None	-\$784.95	-\$784.95

Gain / Loss report

Cec Cur | ec719c8b-c517-5rial.com

About report

This report includes all taxable activity on Coinbase with realized gains or losses. For US customers, Sells and Converts are taxable events that realize gains. This report does not include taxable events like Staking or Coinbase Earn that result in income. Note that this report is provided for informational purposes only, and you are responsible for confirming the accuracy and completeness of the information set forth in the report. For final tax obligations, please consult your tax advisor.

Report legend

Short-term

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Long-term

The tax you pay on capital gains or losses depends on how long you hold the asset. If you hold an asset for 1 year and 1 day, or longer, you pay the long term capital gains tax rate.

Proceeds

The amount of money you received when you sold your cryptocurrency. If you received USD in exchange for your cryptocurrency then the cash you received is your proceeds. If you exchanged one cryptocurrency for another it will be the dollar value of the crypto you received.

Summary

Cost Basis Method: **HIFO**

Data source	Long-term	Short-term	Total gains/losses
Coinbase	None	-\$2,168.35	-\$2,168.35
Total	None	-\$2,168.35	-\$2,168.35

Robinhood Crypto LLC 85 WILLOW ROAD MENLO PARK, CA 94025 Customer Service: 844-428-5411 PAYER'S Federal ID No: 46-4364776	Account 947C	Form 1099 Composite	2021
	Ced 8209 Barn Rd Richmond, VA 23235 RECIPIENT'S ID No: XXX-XX-8848	Statement Date: 02/07/2022	

FATCA filing requirement []

Tax Reporting Statement

MISCELLANEOUS INFORMATION 2021 Form 1099-MISC*	OMB No. 1545-0115
2-Royalties	0.00
3-Other Income	0.00
4-Federal Income Tax Withheld	0.00
8-Substitute Payments in Lieu of Dividends or Interest	0.00

Tax Reporting Statement

Summary Of Sale Proceeds

Proceeds from sales of securities are reported individually by trade to the Internal Revenue Service. Please refer to the Proceeds from Broker and Barter Exchange Transactions details sections to determine correct amounts to include in your tax return. The summary transaction amounts shown below are for informational purposes.

Section	Proceeds	Cost Basis	Market Discount	Wash Sale Loss	Disallowed	Net Gain or Loss(-)	Total
Short-term transactions for covered tax lots							0.000.000.000.000.00
Short-term transactions for noncovered tax lots							425.66899.250.000.00-473.59
Total Short-term							425.66899.250.000.00-473.59
Long-term transactions for covered tax lots							0.000.000.000.000.00
Long-term transactions for noncovered tax lots							0.000.000.000.000.00
Total Long-term							0.000.000.000.000.00
Undetermined transactions for noncovered tax lots							0.000.000.000.000.00
Total Undetermined-term							0.000.000.000.000.00

* This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported. Taxpayers are reminded that they are ultimately responsible for the accuracy of their tax returns.

Crypto-Asset Reporting Framework (CARF) for G20 meeting Oct. 2022

"CARF would require emerging digital market intermediaries, such as crypto-asset exchanges and wallet providers, to apply due-diligence procedures to identify their customers and to report annually customers' aggregate exchanges and transfers to their respective tax administration."

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**DISCUSSION:
AUDIENCE
EXPERIENCES &
EXPERTISE**

What do you see as the biggest risks of the below strategy in dealing with clients?

- Crypto is not an excuse to not pay taxes
- Consistency (no double dipping)
- Tax code has not caught up to the technology (Ex: staking)
- Reasonableness (Ex: S-Corp salary, capitalization threshold)
- Estimates (Ex: inventory, bad debt)
- Different characterizations of similar objects (Ex: housing)
- Clean set of books

Historically is FASB an indicator of future IRS rulings?

- As of this fall FASB is now allowing for market-to-market accounting of digital assets

Grayscale Bitcoin Trust (Btc)
OTCMKTS: **GBTC** shows an
unusual 1099-B. How would you
report "Proceeds Investment
Expense"?

Long-term transactions for which basis reported to the IRS --report on Form 8949 with Box D checked and/or Schedule D, Part II

(Proceeds are reported as gross proceeds unless otherwise indicated (a).)

(IRS Form 1099-B box numbers are shown below in bold type)

1a Description of property, Stock or Other Symbol, CUSIP	Action	Quantity	1b Date	1c Date Sold	1d Proceeds Acquired or Disposed	1e Cost or Other Basis	1f Accrued Basis (b) Discount	1g Wash Sale Market Loss Disallowed	Gain/Loss (-)	4 Federal Income Tax Withheld	14 State Tax Withheld
AMAZON.COM INC,AMZN,023135106											
Sale	3.000	12/13/19	01/08/21	9,502.885	286.90				4,215.98		
Sale	4.000	12/13/19	12/01/21	14,156.187	049.20				7,106.98		
Subtotals	23,659.06	12,336.10									

ANHEUSER-BUSCH INBEVSA/NV ADR EAH REP 1,BUD,03524A108											
Sale	65.000	04/01/20	08/23/21	3,951.972	809.95				1,142.02		

CAPITAL ONE FINANCIAL CORP COM USD0.01,COF,14040H105											
Sale	12.000	02/08/18	05/07/21	1,892.631	125.97				766.66		

DOMINION ENERGY INC COM,D,25746U109											
Sale	50.000	01/16/18	08/23/21	3,951.973	777.77				174.20		

GRAYSCALE BITCOIN TRBTC SHS,GBTC,389637109											
Principal	0.000	12/12/19	01/08/21	39.698	82				30.87		
Principal	0.000	12/16/19	01/08/21	4.531	00				3.53		
Principal	0.000	12/16/19	01/08/21	14.243	12				11.12		
Principal	0.000	12/16/19	01/08/21	0.710	16				0.55		
Principal	0.000	12/16/19	01/08/21	6.411	40				5.01		
Principal	0.000	12/17/19	01/08/21	7.111	51				5.60		
Principal	0.000	12/12/19	01/13/21	26.296	37				19.92		
Principal	0.000	12/16/19	01/13/21	3.000	72				2.28		
Principal	0.000	12/16/19	01/13/21	9.432	25				7.18		
Principal	0.000	12/16/19	01/13/21	0.470	11				0.36		

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Long-term transactions for which basis reported to the IRS --report on Form 8949 with Box D checked and/or Schedule D, Part II

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(IRS Form 1099-B box numbers are shown below in bold type)

1a Description of property, Stock or Other Symbol, CUSIP	Action	Quantity	1b Date	1c Date Sold	1d Proceeds	1e Cost or	1f Accrued	1g Wash Sale	Gain/Loss (-)	4 Federal	14 State
						Acquired or Disposed	Other Basis (b)	Market Loss Discount	Disallowed	Income Tax Withheld	State Tax Withheld

GRAYSCALE BITCOIN TRBTC SHS,GBTC,389637109

Principal 0.00012/16/1901/13/214.241.013.23

Principal 0.00012/17/1901/13/214.721.093.63

Principal 0.00012/12/1901/20/2135.008.8226.18

Principal 0.00012/16/1901/20/213.991.002.99

Principal 0.00012/16/1901/20/2112.553.129.43

Principal 0.00012/16/1901/20/210.630.160.47

Principal 0.00012/16/1901/20/215.651.404.25

Principal 0.00012/17/1901/20/216.281.514.77

Principal 0.00012/12/1901/27/2132.178.8223.35

Principal 0.00012/16/1901/27/213.671.002.67

Principal 0.00012/16/1901/27/2111.543.128.42

Principal 0.00012/16/1901/27/210.580.160.42

Principal 0.00012/16/1901/27/215.191.403.79

Principal 0.00012/17/1901/27/215.761.514.25

Principal 0.00012/12/1901/31/2123.816.3717.44

Principal 0.00012/16/1901/31/212.720.722.00

Principal 0.00012/16/1901/31/218.542.256.29

Principal 0.00012/16/1901/31/210.430.110.32

Principal 0.00012/16/1901/31/213.841.012.83

Principal 0.00012/17/1901/31/214.271.093.18

Principal 0.00012/12/1902/03/2110.762.458.31

Principal 0.00012/16/1902/03/211.230.280.95

Principal 0.00012/16/1902/03/213.860.872.99

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Summary of 2021 Supplemental Information Not Reported to the IRS

Margin Interest Paid.....	435.58
Tax Exempt Investment Expense.....	0.00
Accrued Interest Paid on Purchases.....	0.00
Proceeds Investment Expenses.....	-4,569.99
Severance Tax.....	0.00
Administrative Expenses.....	0.00
Non-deductible Generic Expenses.....	0.00
Deductible Generic Expenses.....	0.00

Currency Realized Gain/Loss (USD).....	0.00
Actual	Payment
Shortfall.....	0.00 Addition to
Basis.....	0.00 Account
Fees.....	16.07 Short
Dividends.....	0.00
Money Market Realized Gain/Loss.....	0.00
Short/Long Term Realized Gain/Loss.....	0.00
Mortgage Pool Statement (MBS).....	0.00



2021 SUPPLEMENTAL INFORMATION

Account No.Customer Service:800-544-5704
Recipient ID No. Payer's Fed ID Number:04-3523567

Note: This information is not reported to the IRS. It may assist you in tax return preparation.

Account Fees		
Description	Date	Amount
ANHEUSER-BUSCH INBEV SA/NV ADR EAH REP 1	06/03/21	11.12
TENCENT HOLDINGS LIMITED UNSPON ADR	06/22/21	4.95
TOTAL		16.07

Margin Interest Paid		
Description	Date	Amount
MARGIN INTEREST @ 2.000% AVG B	01/20/21	1.35
MARGIN INTEREST @ 2.000% AVG B	05/20/21	12.09
MARGIN INTEREST @ 2.000% AVG B	06/20/21	34.49
MARGIN INTEREST @ 2.000% AVG B	07/20/21	45.36
MARGIN INTEREST @ 2.000% AVG B	08/22/21	67.93
MARGIN INTEREST @ 2.000% AVG B	09/20/21	62.07
MARGIN INTEREST @ 2.000% AVG B	10/20/21	77.68
MARGIN INTEREST @ 2.000% AVG B	11/21/21	84.37
MARGIN INTEREST @ 2.000% AVG B	12/20/21	40.65
MARGIN INTEREST @ 2.000% AVG B	12/30/21	9.59
TOTAL		435.58

Proceeds Investment Expenses			
Description	CUSIP	Date	Amount
GRAYSCALE BITCOIN TR BTC SHS	389637109	01/08/21	-72.69
GRAYSCALE BITCOIN TR BTC SHS	389637109	01/13/21	-48.15
GRAYSCALE BITCOIN TR BTC SHS	389637109	01/20/21	-64.10
GRAYSCALE BITCOIN TR BTC SHS	389637109	01/27/21	-58.91
GRAYSCALE BITCOIN TR BTC SHS	389637109	01/31/21	-43.61
GRAYSCALE BITCOIN TR BTC SHS	389637109	02/03/21	-19.71
GRAYSCALE BITCOIN TR BTC SHS	389637109	02/10/21	-82.70
GRAYSCALE BITCOIN TR BTC SHS	389637109	02/17/21	-96.90
GRAYSCALE BITCOIN TR BTC SHS	389637109	02/24/21	-91.20
GRAYSCALE BITCOIN TR BTC SHS	389637109	02/25/21	-26.06
GRAYSCALE BITCOIN TR BTC SHS	389637109	02/28/21	-35.74
GRAYSCALE BITCOIN TR BTC SHS	389637109	03/05/21	-52.15
GRAYSCALE BITCOIN TR BTC SHS	389637109	03/10/21	-74.55

Proceeds Investment Expenses			
Description	CUSIP	Date	Amount
GRAYSCALE BITCOIN TR BTC SHS	389637109	03/17/21	-107.32
GRAYSCALE BITCOIN TR BTC SHS	389637109	03/24/21	-101.32
GRAYSCALE BITCOIN TR BTC SHS	389637109	03/31/21	-124.04
GRAYSCALE BITCOIN TR BTC SHS	389637109	04/08/21	-91.62
GRAYSCALE BITCOIN TR BTC SHS	389637109	04/12/21	-95.22
GRAYSCALE BITCOIN TR BTC SHS	389637109	04/20/21	-104.78
GRAYSCALE BITCOIN TR BTC SHS	389637109	04/30/21	-165.88
GRAYSCALE BITCOIN TR BTC SHS	389637109	05/05/21	-75.51
GRAYSCALE BITCOIN TR BTC SHS	389637109	05/12/21	-86.25
GRAYSCALE BITCOIN TR BTC SHS	389637109	05/18/21	-68.57
GRAYSCALE BITCOIN TR BTC SHS	389637109	05/24/21	-73.21
GRAYSCALE BITCOIN TR BTC SHS	389637109	05/27/21	-30.72
GRAYSCALE BITCOIN TR BTC SHS	389637109	05/31/21	-38.90
GRAYSCALE BITCOIN TR BTC SHS	389637109	06/04/21	-38.83
GRAYSCALE BITCOIN TR BTC SHS	389637109	06/10/21	-58.03
GRAYSCALE BITCOIN TR BTC SHS	389637109	06/18/21	-46.56
GRAYSCALE BITCOIN TR BTC SHS	389637109	06/24/21	-64.27
GRAYSCALE BITCOIN TR BTC SHS	389637109	06/30/21	-73.22
GRAYSCALE BITCOIN TR BTC SHS	389637109	07/07/21	-54.69
GRAYSCALE BITCOIN TR BTC SHS	389637109	07/14/21	-60.26
GRAYSCALE BITCOIN TR BTC SHS	389637109	07/21/21	-58.23
GRAYSCALE BITCOIN TR BTC SHS	389637109	07/26/21	-62.08
GRAYSCALE BITCOIN TR BTC SHS	389637109	07/31/21	-54.31
GRAYSCALE BITCOIN TR BTC SHS	389637109	08/05/21	-32.10
GRAYSCALE BITCOIN TR BTC SHS	389637109	08/11/21	-85.43
GRAYSCALE BITCOIN TR BTC SHS	389637109	08/18/21	-82.57
GRAYSCALE BITCOIN TR BTC SHS	389637109	08/25/21	-89.40
GRAYSCALE BITCOIN TR BTC SHS	389637109	08/31/21	-86.86
GRAYSCALE BITCOIN TR BTC SHS	389637109	09/07/21	-85.75
GRAYSCALE BITCOIN TR BTC SHS	389637109	09/14/21	-85.31
GRAYSCALE BITCOIN TR BTC SHS	389637109	09/23/21	-82.19
GRAYSCALE BITCOIN TR BTC SHS	389637109	09/30/21	-102.62
GRAYSCALE BITCOIN TR BTC SHS	389637109	10/07/21	-70.67
GRAYSCALE BITCOIN TR BTC SHS	389637109	10/14/21	-106.05
GRAYSCALE BITCOIN TR BTC SHS	389637109	10/19/21	-117.59
GRAYSCALE BITCOIN TR BTC SHS	389637109	10/27/21	-108.22





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Account No.1Customer Service:800-544-5704
Recipient ID No.Payer's Fed ID Number:04-3523567

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Proceeds Investment Expenses			
Description	CUSIP	Date	Amount
GRAYSCALE BITCOIN TR BTC SHS	389637109	10/29/21	-49.08
GRAYSCALE BITCOIN TR BTC SHS	389637109	10/31/21	-31.77
GRAYSCALE BITCOIN TR BTC SHS	389637109	11/05/21	-63.93
GRAYSCALE BITCOIN TR BTC SHS	389637109	11/10/21	-86.03
GRAYSCALE BITCOIN TR BTC SHS	389637109	11/17/21	-110.53
GRAYSCALE BITCOIN TR BTC SHS	389637109	11/24/21	-105.02
GRAYSCALE BITCOIN TR BTC SHS	389637109	11/30/21	-105.02
GRAYSCALE BITCOIN TR BTC SHS	389637109	12/09/21	-87.11
GRAYSCALE BITCOIN TR BTC SHS	389637109	12/16/21	-87.50
GRAYSCALE BITCOIN TR BTC SHS	389637109	12/22/21	-89.40
GRAYSCALE BITCOIN TR BTC SHS	389637109	12/31/21	-119.55
TOTAL			4,569.99

Bitwave

Crypto.co



NetSuite

CoinTracker

Verady



TaxBit



Ledgible



Gilded

(integrates with QBO)

afloat[®]

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