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Bitcoin Traders Are Now in the IRS Crosshairs

by Denny Murphy and Nick Ward

IRS "hunting season" has begun, and bitcoin traders are big game for IRS agents. That's because the IRS is doing everything it can to identify tax evaders who have recognized gains as a result of trading bitcoins.

How are they attempting to do this? The IRS has contracted with a company called Chainalysis that offers software for analyzing and tracking bitcoin transactions. During 2015, the IRS stated that only 802 individuals reported a bitcoin transaction on their personal income tax Form 1040. Given that the IRS received *58,304,000 tax returns in 2016 (according to Forbes magazine)*, it's no wonder the IRS is doing everything it can to track bitcoin transactions.

Many people believe that bitcoin is an anonymous, untraceable currency, which is not entirely true. All transactions linked to a particular address are visible on the blockchain, a digital ledger in which transactions made in bitcoin or another cryptocurrency are recorded chronologically, publicly and transparently. It then takes a bit of digging and additional information to link that address to the real-world identity of a person or company.

The IRS has previously requested Coinbase (a digital asset exchange company, similar to a Scottrade or E-Trade for stocks) to give it details about its users for the period from 2013 to 2015. Many users of Coinbase, Coinbase itself, and members of Congress have asserted themselves by pushing back on the IRS in this matter. As a result, the IRS scaled back the

request in July to Coinbase users who engage in transactions of \$20,000 or more. The case is still ongoing.

Separately, *The Wall Street Journal* reported last week that the IRS may be close to issuing additional guidance on bitcoin taxes, especially in light of the recent "split" in the cryptocurrency world between bitcoin and a competing coin known as Bitcoin Cash. As for the accounting world, the Financial Accounting Standards Board (FASB) has also come under pressure to release guidance on how to account for bitcoin and other cryptocurrencies. According to Thompson Reuters, the FASB is in the early stages of developing this standard.

This issue will continue to evolve, and as it does, Skoda Minotti will monitor developments and keep you apprised of important developments.

For more information on **tax planning** relative to bitcoin, or other tax issues, contact Denny Murphy or Nick Ward at 440-449-6800 or email **Denny** or **Nick**.