



## Virtual Currency Tax Update

Virtual currency is identified as a digital or internet-based asset that functions as a medium of exchange, a unit of account, or a store of value. These currencies, also referred to as altcoins or cryptocurrency, often use tokens or “coins” as their unit. The majority of these virtual currencies exist only in a digital or intangible form, though some have moved into the physical world with the issuance of credit cards. Virtual currencies are mostly unregulated. They are issued and usually controlled by their respective developers, and used and accepted among members of a specific virtual community. The more well-known brands of virtual currency in the market include Bitcoin, Ether, Ripple, Litecoin and Monero. There are currently more than 2,500 versions of virtual currencies in existence as of the printing of this article.

Much like paper currency, virtual currencies are held in a digital wallet. Blockchain, which is the largest cryptocurrency wallet platform, is able to execute buy and sell orders in mere microseconds. Other popular wallet platforms include Coinbase and Binance. While the use of virtual currency in exchange for goods and services has started off at a relatively slow pace, many investors have been trading the “coins” for speculative purposes and fluctuations in value. This trading activity has brought about some complexities in tax compliance. As virtual currency transactions aren’t often captured or reported to the IRS by the wallet platforms, many transactions go unreported on tax returns.

The sale, exchange, or use of virtual currency to pay for goods or services in a real-world economy transaction will bring tax consequences that may result in a tax liability. For Federal income tax purposes, the Internal Revenue Service is treating virtual currency as property. As such, the rules and regulations that apply to tangible property transactions apply in similar form to transactions involving virtual currency. A taxpayer who receives virtual currency as payment for goods and services must, in computing their gross income, include the fair market value of the virtual currency, measured in U.S. dollars, as of the date that the virtual currency was received.

In 2018, the Internal Revenue Service announced a Virtual Currency Compliance campaign to address tax non-compliance related to the use of virtual currency. They have stated that taxpayers who do not properly report the income tax consequences of virtual currency transactions are, when appropriate, liable for tax, penalties and interest. In some cases, taxpayers could be subject to criminal prosecution. The IRS will remain actively engaged in addressing virtual currency related non-compliance through a variety of efforts, ranging from taxpayer education to audits to criminal investigations.

In a July 26, 2019 Information Release (*IR 2019-132*), the IRS announced that it had begun sending letters to taxpayers who may have failed to report income from virtual currency transactions and pay the resulting tax, as well as those who did not report their transactions properly. More than 10,000 letters were sent out to taxpayers whose names were obtained from the ongoing compliance efforts.

With this stepped-up enforcement, it is essential to report any virtual currency transactions correctly. Should you need guidance on the proper reporting of these types of transactions, please contact your tax advisor to begin a discussion.

Disclaimer:

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