

The background of the top section features a large, semi-transparent Bitcoin logo in the center. To its left is a shield icon with a Bitcoin symbol inside, and to its right is a network diagram with nodes and connecting lines. The entire background has a warm, orange-to-red gradient.

Virtual Currencies And Your Taxes

Virtual currency transactions are on the rise amongst taxpayers. Many taxpayers actively buy and sell virtual currencies (Bitcoin, Cryptocurrency, Dogecoin, Ethereum, etc.). For US tax purposes, many transactions involving virtual currencies are taxable events that must be reported when filing your annual tax return. As the IRS continues to invest resources dedicated to the enforcement of virtual currency reporting requirements, we want to ensure that you have the information necessary as you gather your tax information with respect to virtual currency transactions. To that end, here are some frequently asked virtual currency questions:

Do I need to report cryptocurrency transactions on my tax return?

When reporting cryptocurrency on your tax return, a good rule of thumb is that you must report it on your tax return if a taxable event occurs. For cryptocurrency, taxable events fall under two categories:

- **Capital Gain/Loss** – using cryptocurrency to purchase goods or services, swapping one crypto asset for another, etc. (for example – using cash to purchase a bitcoin and later selling the bitcoin for cash or using bitcoin to purchase furniture, plane tickets, etc.). This income should be reported as capital gain. The holding period is short-term if held less than 12 months and long-term if held greater than 12 months. The computation of the gain or loss can be complicated.
- **Ordinary Income/Loss** – receiving cryptocurrency through an airdrop or for payment of goods or services; and mining cryptocurrency (for example – a customer uses bitcoin to pay a plumber for services, an employer uses bitcoin to pay an employee, or a computer engineer uses his computer to mine cryptocurrencies). This income should be reported as self-employment income or other income. Self-employment income is income that arises from performance of personal services, and Other income is income that is not self-employment income.



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What is the tax rate for cryptocurrency?

Cryptocurrency income is taxed using the same income tax brackets and capital gain rates for all US income.

How to report the sale of cryptocurrency with capital gain or loss?

For clients using an exchange (Coinbase, FTX, etc.) to buy and sell cryptocurrency, the broker may provide an annual form 1099. If you use more than one exchange broker, you will need third-party software to merge all accounts (wallets) to one Form 8949 (IRS Form for reporting sales).

How to report income received in the form of cryptocurrency?

For clients reporting self-employment income from mining cryptocurrency and independent contractor services, you will need an annual summary report that indicates the US dollar equivalent of the digital assets received. If you provided services as an employee, your employer would provide you a W-2 which will include the value of the digital asset paid to you.

Cryptocurrency and digital assets can be very confusing when filing your taxes. We have an experienced cryptocurrency team that can answer any of your questions or concerns
<https://pragermetis.com/industries/digital-assets/>

Fees for preparing tax returns with cryptocurrency transactions

Cryptocurrency transaction reporting can be time-consuming for the preparer. To minimize reporting errors, please use third-party software to gather all of your cryptocurrency transactions.

As always, please reach out to our team members with any questions.

Thank you

