



# Allen Barron Crypto Reporting Guide



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# Crypto Tax Calculation

Your tax exposure is generally based upon how long you hold specific assets, the gain or loss experienced in the transaction(s) as well as the governing agency / country where you are required to report and pay any associated taxes. You are responsible for keeping accurate records reflecting the date you acquired each cryptocurrency asset, the amount you paid for each given cryptocurrency, the amount you received or the value of the purchasing transaction when cryptocurrency leaves your account(s) and any fees resulting from the transactions(s). Crypto tax calculation requires an understanding of the reporting requirements and the limitations of "traditional" accounting platforms. You cannot take the approach of trying to account for your crypto data by just summarizing activity in Excel spreadsheets. You need to understand the technicalities behind trades & exchanges, missing transactions, missing fees, tracking basis and trades across currencies, tokens and platforms, airdrops, forks, mining, loss harvesting, and the impact that all of these have on your taxes. We can assist you in minimizing your liability, so that you do not pay any unnecessary taxes or potentially underreport or wrongly report transactions, exposing you to undue tax penalties, interest or audits.



## Cryptocurrency

Cryptocurrency is a form of digital asset. It is similar to cash, such as US Dollars (\$), but exclusively digital so there are no physical bills or coins. There are specific risks associated with cryptocurrency which are different from traditional currency: individual cryptocurrencies are entirely based in an electronic (on-line) medium, and are not managed, backed or controlled by any governmental agency or international body.

The US taxes cryptocurrency as property. Therefore, if your cryptocurrency holdings appreciate (increase) in value any decision to sell part or all of your portfolio, trades or use (such as for a hard goods or services purchase) may be taxed as a capital gain. Likewise, if your cryptocurrency portfolio depreciates (decrease) in value and you make transactions from your digital account you can accumulate losses which can be used to reduce your taxable exposure or offset other capital gains.





# How Will Tax Authorities Like the IRS Know About My Cryptocurrency Holdings and Transactions?

The IRS and international tax agencies use a variety of techniques to track cryptocurrency transactions and enforce tax compliance. For example, there is a simple question toward the top of every taxpayers 1040, 1040-SR and 1040-NR: "At any time during 2021 (2022, etc), did you receive, sell, exchange, or otherwise dispose of any financial interest in any virtual currency?"

The IRS has subpoenaed domestic and international cryptocurrency exchanges such as Coinbase for user transaction information. This has led to cryptocurrency users' transaction information being shared directly with the tax authorities.

The worldwide implementation of FATCA beginning in 2014 has led to electronic data sharing between the IRS and other international sovereign tax agencies and authorities. Banks, investment houses and cryptocurrency exchanges worldwide are required by law to provide information reporting, withholding and due diligence directly to the IRS if the exchange has financial accounts associated with any US person or entity. The IRS Form 1099-K is a tax report that exchanges are starting to generate. Coinbase, Coinbase Pro, Gemini, Uphold, Kraken, and other major crypto exchanges have started issuing 1099-K tax documents to their customers and the IRS, reporting the gross amount of sales, trades & exchanges for the year.

## Taxable Events

**Generally speaking, these are considered reportable taxable events:**

- Selling cryptocurrency for regular currency (e.g. USD, EUR, etc.).
- Trading cryptocurrency for other cryptocurrency (Bitcoin for Ethereum; it does not require cashing out to be taxable).
- Using cryptocurrency to buy goods or services.
- Receiving cryptocurrency from a fork, airdrop or mining.
- With cryptocurrency, the IRS has clarified that like-kind exchanges are not allowed - so every cryptocurrency-to-cryptocurrency exchange is a taxable event.

# Crypto Tracking Software Overview

Allen Barron recommends Crypto tax tracking software such as Koinly, CoinTracker and Ledgible as our preferred digital asset aggregating and reporting software. These services allow us to summarize and download your tax reporting information at year-end. You can also better monitor your various activities, gains and losses on a daily basis with these platforms (no more spreadsheets). Your data is safe and secure. Like other crypto tax software, they use read-only API connections to import transactions. This means they or we can't make changes to any of your crypto exchanges or wallets. We access your aggregated reports at year-end only with your express authorization and only for the preparation of and inclusion with your tax returns.

- Crypto tracking software links, tracks and summarizes all your transactions via the various exchanges and wallets you do business with. You provide the authorization to link accounts directly. It provides daily reports of all activity, gains, and losses.
- For each asset, the platforms should accomplish the following:
  - ▶ Establish and provide reporting related to the cost basis for every transaction in cryptocurrency accounts by applying the appropriate FIFO (First In, First Out) calculation method, LIFO (Last In, First Out) and HIFO (Highest In, First Out) all of which remain the default standard in the USA. The cost basis is used to establish the net loss or gain for each transaction in the account(s).
  - ▶ Provide appropriate indication or reporting as to the nature of any resulting capital gain (short or long term capital gain) term. Long-term capital gains are presently taxed at a rate which varies between 0% and 20% (not to mention additional state tax implications). Short term capital gains are usually based upon the current maximum ordinary income tax rate.
- The platform calculates the cost basis for every transaction reducing or increasing a crypto asset balance owned by the user and the resulting gain or loss.
- It connects to the platform's database to retrieve all the user's crypto transactions and transaction metadata (including spot price and classification).

## Potential Crypto Tax Filing Forms

There are a several US tax forms which may apply to your cryptocurrency holdings and associated tax filing and reporting requirements depending on whether you are a business or individual, the types and volume of trades, whether you are mining, etc. These are the primary forms which can apply to a cryptocurrency holder who is a US taxpayer:



## Potential Crypto Tax Filing Forms

- **Form 8949** (Sales and Other Dispositions of Capital Assets) with a complete list of every cryptocurrency disposal you have had (e.g. sell, trade, send to a third party, etc.)
- **Schedule D** (Capital Gains and Losses) with an aggregate sum of your capital gains across all asset classes
- **Form 1040** (Individual Income Tax Return) including your Schedule D information
- **Schedule 1** Any income (from forks, airdrops, mining, or payments) will go on the "other income" line z
- **Form 114** (FBAR) for cryptocurrency held on foreign platforms
- **Form 8938** (Statement of Specified Foreign Financial Assets) for cryptocurrency held on foreign platforms

# What Happens If I Fail to Report Cryptocurrency Gains or Losses on My Tax Returns?

In the US, the IRS requires that you file your taxes (in some cases, even if you owe zero taxes or are owed a refund, you are still required to file your taxes). The failure to accurately report cryptocurrency activities and pay associated taxes can result in several consequences:

- Collection of any amounts owed, as well as any associated penalties, interest and/or fees
- Confiscation of any potential present or future refund
- Liens, levies and or garnishment
- IRS or State Tax Agency Audits
- A potential jail sentence



In July 2019, the IRS started sending out over 10,000 warning letters to US taxpayers who hold cryptocurrency. The reporting requirements are becoming ever more stringent as Crypto market investing becomes more popular and common place. Exchanges are now required to report the volume of trades in dollars to the IRS (Form 1099-K) and page 1 of the Form 1040 now directly asks if you "receive, sell, exchange, or otherwise dispose of any financial interest in any virtual currency." Let Allen Barron help you to come into compliance with all complicated IRS and state tax requirements. Our tracking software can go back into prior years to properly summarize and report activity that may have been neglected.

**We invite you to learn more about the integrated tax, legal, accounting and business consulting services of Allen Barron and contact us or call today to schedule a free consultation at 866-631-3470.**

*Learn more about the ramifications of prior years' cryptocurrency transaction underreporting and resulting tax exposure as well as current reporting requirements and consequences.*

*“The following cryptocurrency exchange platforms and cryptocurrency aggregators are not affiliated with or are in a paid partnership with Allen Barron, Inc. or Janathan L. Allen, APC: Coinbase, Coinbase Pro, CoinTracker, Gemini, Kraken, Koinly, Legible, and/or Uphold. Nothing published by Allen Barron, Inc. or Janathan L. Allen, APC constitutes a cryptocurrency exchange platforms or cryptocurrency aggregators recommendation, nor should any data or content published by Allen Barron, Inc. or Janathan L. Allen, APC be relied upon for decisions of use for cryptocurrency exchange platforms or cryptocurrency aggregators. The ownership of any decision(s) to use any cryptocurrency exchange platform or cryptocurrency aggregator shall exclusively vest with the user of the application and will accept the possible risk factors and by exercise of his/her/its independent discretion. Allen Barron, Inc. and Janathan L. Allen, APC shall not be liable or held liable for any consequence thereof.”*

