

## Cryptocurrency

The last two years have seen explosive growth in US consumer interest in crypto-currency transactions, purchases and use. Sadly, very few consumers understand the income tax and foreign reporting obligations that accompany crypto-currency activities, and the incorrect and misleading information floating around on the internet is frightening to we tax professionals.

Congress and the IRS have both become aggressively involved in monitoring the activities and the failure to correctly report crypto, and on November 15<sup>th</sup> the President signed even stronger legislation to track the activities. As an example, were you aware that one penalty for failure to report crypto activities can be 50% of the highest balance in the account *each year*?

We must strongly remind you that crypto activity must be reported to us so that we may appropriately report it on your tax return. Additionally, because of the compliance rules, the reporting is extraordinarily complex, and we will need you to consider using a tax basis tracking software to even start trying to prepare your return. Call or email us for a recommendation. To get your attention, the lowest price that the online tax trackers charge to prepare a return with cryptocurrency activities is \$2,500, so be forewarned that this activity on your part will be greeted with a huge fee on our part. Our industry is seeing tax returns requiring as many as 20,000 separate entries on the return, and several hundred entries is not unusual at all for individuals trading crypto or using it to buy stuff. The most basic rule to investing is to understand the investment and its related reporting requirements and we are afraid that few Americans understand either when it comes to cryptocurrency.

Here are the 7 activities that require individual transaction reporting **in addition to just reporting the existence of the account. You read that correctly-each individual transaction must be individually reported. For example if you use a crypto currency to buy a cup of coffee we must report that transaction individually on your return!**

1. **Selling (Converting) crypto to US Dollars**
2. **Trading 1 crypto for another**
3. **Spending crypto directly for goods or services**
4. **Mining crypto from your own computers**
5. **Staking or lending crypto and receiving payment in crypto or dollars**
6. **Receiving Airdrop crypto**
7. **Getting paid in crypto**

Items 1,2 and 3 require that we report each and every transaction separately on your return!! Potentially hundreds or thousands of transactions must be reported if you are spending cryptocurrency, trading (even via a "Bot"), mining, etc.

In summary, these actions must be disclosed so that we may report them and have you avoid penalties. Complexity and time requirements will result in additional tax return preparation fees related to cryptocurrency transactions.