THE WORLD OF CRYPTO: THE IMPORTANCE OF REPORTING YOUR GAINS AND LOSSES

Cryptocurrency: It's not as decentralized as you might think.

Even though there isn't a dedicated government agency overseeing the world of cryptocurrency, it doesn't mean you're off the hook for reporting your gains and losses to the IRS. Failure to accurately report them, even unknowingly, leaves you an open target with a bullseye for an audit. If this happens, be prepared to pay the price - and not in Bitcoin!

There are a number of things you need to consider when trading cryptocurrencies, and this includes comprehensive and accurate reporting of gains and losses. For tax purposes, conscientious traders must understand their investment classification, keep thorough documentation, and know the proper forms to fill out. In this article, we outline a few reasons why this is important, and what the possible implications are of failing to do so.

Why do I need to report my trading?

Many U.S. taxpayers may not be accurately reporting the gains or income they have created from their cryptocurrency transactions – and the IRS is catching on. However, this profit source is also a deep source of confusion when tax time rolls around. There is still an on-going debate regarding the legality of cryptocurrency ownership in the U.S and therefore, many people remain in the dark on the tax implications of not declaring capital gains from any realized profits.

In the eyes of the IRS, cryptocurrencies are still considered property, not money. As a capital asset, cryptocurrency is therefore subject to the capital gains tax rules if not held for business purposes. If you hold cryptocurrencies for personal or investment purposes, any gains or losses from the sale of the cryptocurrency are subject to the capital gains tax regime. Failure to comply with these guidelines may leave you liable, and even the pseudonymity of cryptocurrency trading won't be able to protect you from the consequences. Despite the fact that cryptocurrency is still a loosely regulated industry, and although it isn't recognized as legal tender in the United States, taxpayers should report all capital gains and losses to the Internal Revenue Service (IRS) on Form 8949.

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What happens if I don't report the activity?

Just as in any other situation of failure to pay taxes, the IRS is taking cryptocurrency tax evasion very seriously and is tracking down culprits. The pressure to comply will only increase as cryptocurrency becomes more socially accepted and the value continues to climb. The consequences for cryptocurrency investors who ignore the IRS' warning are severe: failure to report the capital gains would be considered tax fraud and could cost you significantly in the future. By not reporting cryptocurrency gains, as a minimum, you will incur a negligence penalty as well as interest on the unpaid taxes. Should the agency conclude that the cryptocurrency tax evasion was willful, the potential penalties increase substantially - including jail time in the most severe cases.

What do I need to look out for?

Ownership of cryptocurrency alone does not constitute capital gains. Similar to stocks and shares, capital gains taxes on cryptocurrency only occurs when the gains are realized by the *sale* of the coin.

To Report Cryptocurrency:

1. You need to file form 8949

It's worth noting that this form must be filled out every year you transact any cryptocurrencies, even if you didn't make a profit on the sale. If the cryptocurrency is held for more than one year, then you qualify for the long-term capital gains tax; otherwise, it is covered by the short-term capital gains rate.

2. Once Form 8949 is completed, follow the instructions and transfer the information over to Schedule D.

Completing this schedule will allow you to establish your total capital gains or losses for the designated year. As tracking this type of investment and properly converting previous values into real dollars can be tricky, it is best to enlist the help of a seasoned accountant if you have questions.

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In Summary

Ultimately, with the growing popularity and a rise in the value of cryptocurrencies, many investors are trying to calculate and determine their tax liability on cryptocurrency transactions. Buying cryptocurrencies for personal or investment purposes which result in any gain or loss from a sale or exchange may be subject to the capital gains tax regime.

While the potential for financial success is a genuine opportunity via cryptocurrency investing, it is coupled with complex tax reporting obligations and requires a proactive approach on your part to ensure you comply with those obligations. Therefore, it is important to proactively consult with an accountant who is familiar with cryptocurrency tax reporting rules so that you don't inadvertently end up with a fine - or even worse, behind bars.

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