

The Complete Guide to Crypto Tax-Loss Harvesting

< All Guides

Published
December 6,
2021

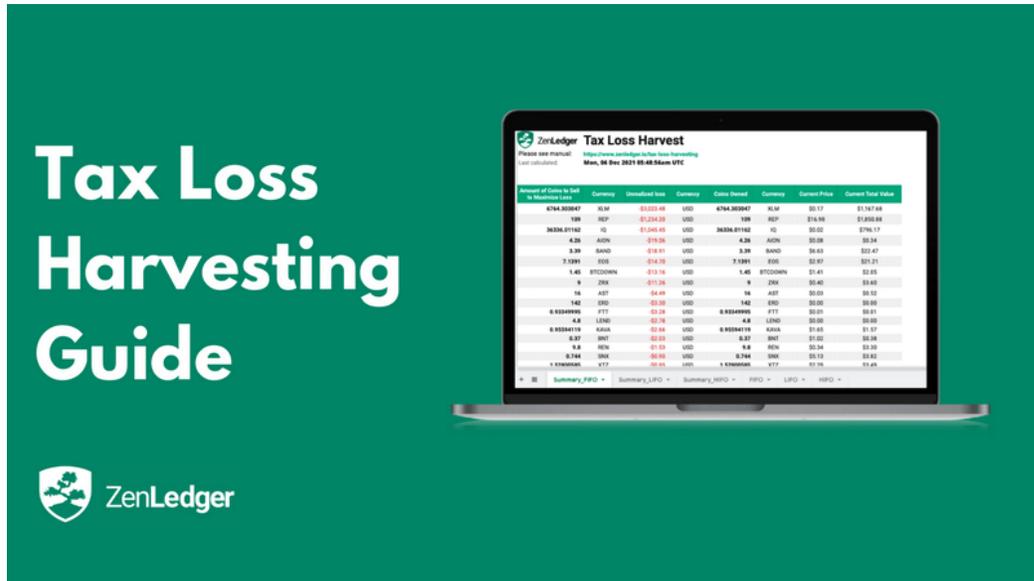
ZenLedger

Share



Topics

- [1. Introduction to Tax-Loss Harvesting](#)
- [2. What is Tax-Loss Harvesting?](#)



Introduction to Tax-Loss Harvesting

So you bought your first cryptocurrency based on the recommendation of your friend - but bought at the wrong time, and now you're looking at a paper loss? **Don't let that unrealized cryptocurrency loss sit there - put it to work for you at tax time.**

Because the IRS treats cryptocurrencies as investment properties – similar to a stock or bond – they are subject to capital gains taxes. Under the [IRS' 2019 guidance](#), cryptocurrency is treated as property, and consequently the

4. [How](#) short-term capital gains elsewhere in their portfolio – or even offset up to

[ZenLedger Can Tax Professionals](#) [Resources](#)

[Harvest Your Losses?](#)

Let's take a look at how this strategy, known as tax-loss harvesting works, and the unique rules that apply to cryptocurrency investors.

5. [How](#)

[ZenLedger's Tax-Loss Harvesting Tool Works?](#)

What is Tax-Loss Harvesting?

Tax-loss harvesting is the process of selling a cryptocurrency that has experienced a loss to realize that loss. By “harvesting” the loss, investors can offset taxes on both gains and income. The sold cryptocurrency can then be replaced in the portfolio in order to maintain an optimal asset allocation and expected returns.

Harvested losses can offset capital gains incurred during the year and reduce ordinary taxable income by up to \$3,000 per year. If your losses exceed \$3,000 and any capital gains for the year, you can roll the losses forward to future years and offset those gains. For instance, if you have \$5,000 in losses and no capital gains, you may be able to offset \$3,000 in taxable income and carry forward \$2,000.

Another tax-loss harvesting example is suppose that you bought coins at \$10,000 in February 2020 and you're still holding it at \$6,800 today, which represents a 32% unrealized loss. You could harvest the loss by selling coins to realize the \$3,200 loss and use that \$3,200 to offset other taxes that you owe this year or carry those losses forward to next year.

By some estimates, tax-loss harvesting can increase after tax annual returns between 0.15% and 0.25% per year.

What If You Didn't Have Losses For The Year?

Another savings option according to Andrew Gordon, JD/CPA, President of Gordon Law Group, an expert in cryptocurrency taxation and legal structures, is when you have gains for the year.

“If you traded a bunch of cryptos and have accrued gains during the year, then you are currently in a gain position. You can reduce your current gains by year-end by selling your crypto at a loss. You can also offset other capital gains, so it doesn't have to be crypto, it can also reduce stocks or

tax-loss harvesting. After realizing the loss, investors can purchase a
Tax Professionals **Resources** **Asset Allocation** **Expected Returns**.”

The Wash Sale Rule

Of course, the IRS wants everyone to pay their fair share of taxes, so they introduced the Wash Sale Rule to prevent investors from incurring losses and repurchasing the same security within 30 days. But, while these rules apply to stocks, the IRS considers cryptocurrencies property, rather than securities, so under the current law, **the Wash Sale Rule does not apply to crypto investors.**

Despite the potential for strong tax savings, cryptocurrency investors should try not to abuse the strategy. The IRS could argue that an immediate sell-buy transaction had no substantive economic value and therefore could not be used to offset capital gains or income. Even if the IRS wouldn't win the fight, the cost of the fight might outweigh the benefits.

How ZenLedger Can Harvest Your Losses?

ZenLedger helps investors automate their tax-loss harvesting by identifying opportunities with our tax-loss harvesting tool. When you import your transactions (from your various exchanges and wallets into the ZenLedger platform, it finds every opportunity for savings and auto-fills popular IRS forms. [Our tax-loss harvesting tool is free to use with all tax plans.](#)

*The deadline for tax-loss harvesting is December 31st, don't miss your chance to lower your tax burden!

ZenLedger generates a Google Sheet containing tax-loss harvesting opportunities based on your transactions and chosen accounting method.

Amount of Coins to Sell to Maximize Loss	Currency	Unrealized loss	Currency	Coins Owned	Currency	Current Price	Current Total Value
145.1312337	XLM	-\$41.15	USD	145.1312337	XLM	\$0.41	\$59.01
3.09601399	ATOM	-\$11.12	USD	3.09601399	ATOM	\$13.06	\$40.43
41.08437553	ALGO	-\$12.20	USD	41.08437553	ALGO	\$0.91	\$37.58
9.41551665	XTZ	-\$8.27	USD	9.41551665	XTZ	\$3.52	\$33.12
174.316063	USDC	-\$6.90	USD	174.316063	USDC	\$1.00	\$174.38
1.00154	BTCDOWN	-\$6.87	USD	1.00154	BTCDOWN	\$0.06	\$0.06
1.14564754	NMR	-\$5.01	USD	1.14564754	NMR	\$41.70	\$47.77
1.37502	JUV	-\$4.25	USD	1.37502	JUV	\$11.46	\$15.75
0.26549047	UMA	-\$2.20	USD	0.26549047	UMA	\$13.67	\$3.63
1347.4251	NBS	-\$2.11	USD	1347.4251	NBS	\$0.01	\$17.92
1.8727	LEND	-\$2.03	USD	1.8727	LEND	\$0.00	\$0.00
3.72133098	NU	-\$1.86	USD	3.72133098	NU	\$0.30	\$1.13
0.993	LINKUP	-\$1.39	USD	0.993	LINKUP	\$5.06	\$5.03
454.545	BCN	-\$1.12	USD	454.545	BCN	\$0.00	\$0.22
1.54924076	STRAT	-\$0.97	USD	1.54924076	STRAT	\$0.00	\$0.00

ZenLedger Tax-Loss Harvesting Report

How ZenLedger’s Tax-Loss Harvesting Tool Works?

Our tax-loss harvesting tool lets you know how many unrealized capital losses you have in each token type. Once you see this preview, you can then decide if you want to realize the loss. You can decide which token(s) you want to realize the loss on, and by how much.

It’s an Easy 3 Step Process

Step 1: Launch the Tool

After you upload your transactions, you’ll see a menu item called Tax-Loss Harvesting on your dashboard. Click on this link and we will begin to run our tool. It will take about 15 seconds to process.

Step 2: Read the Results

The output of ZenLedger’s Tax Loss Harvesting report is a Google spreadsheet that will open in a new tab of your browser.

Amount of Coins to Sell to Maximize Loss	Currency	Unrealized loss	Currency	Coins Owned	Currency	Current Price	Current Total Value
6764.303047	XLM		USD	6764.303047	XLM	\$0.17	\$1,167.68
109	REP	-\$1,234.20	USD	109	REP	\$16.98	\$1,850.88
36336.01162	IQ	-\$1,045.45	USD	36336.01162	IQ	\$0.02	\$796.17
4.26	AION	-\$19.06	USD	4.26	AION	\$0.08	\$0.34
3.39	BAND	-\$18.91	USD	3.39	BAND	\$6.63	\$22.47
7.1391	EOS	-\$14.70	USD	7.1391	EOS	\$2.97	\$21.21
1.45	BTCDOWN	-\$13.16	USD	1.45	BTCDOWN	\$1.41	\$2.05
9	ZRX	-\$11.26	USD	9	ZRX	\$0.40	\$3.60
16	AST	-\$4.49	USD	16	AST	\$0.03	\$0.52
142	ERD	-\$3.30	USD	142	ERD	\$0.00	\$0.00
0.93349995	FTT	-\$3.28	USD	0.93349995	FTT	\$0.01	\$0.01
4.8	LEND	-\$2.78	USD	4.8	LEND	\$0.00	\$0.00
0.95594119	KAVA	-\$2.66	USD	0.95594119	KAVA	\$1.65	\$1.57
0.37	BNT	-\$2.03	USD	0.37	BNT	\$1.02	\$0.38
9.8	REN	-\$1.53	USD	9.8	REN	\$0.34	\$3.30
0.744	SNX	-\$0.90	USD	0.744	SNX	\$5.13	\$3.82
1.52800585	XTZ	-\$0.85	USD	1.52800585	XTZ	\$2.29	\$3.49

Summary_FIFO ▾ Summary_LIFO ▾ Summary_HIFO ▾ FIFO ▾ LIFO ▾ HIFO ▾

Each tab represents a different accounting method - use your preferred method (most customers use FIFO, but HIFO and LIFO are also available) to see your total potential losses to harvest, organized by currency. You can toggle between accounting methods in the spreadsheet.

The summary tabs show you all of the coins you currently own that have an unrealized loss using your preferred accounting method. The other tabs show you the raw data that we use to create your summaries.

Breakdown of Accounting Methods

Our tax-loss harvesting spreadsheet tabs summarize your losses as accrued by each type of supported accounting method. Please know that you must be consistent year to year and between your tax-loss harvesting and your reporting on your 8949 or Schedule D, You cannot switch between these -- you have to choose one and stick with it.

We've included the textbook definitions below for more clarity. You'll want to consult a tax advisor to decide which method is best for you.

[FIFO on Investopedia](#)

[LIFO on Investopedia](#)

[HIFO on Investopedia](#)

Step 3: Realize Losses by Selling Your Crypto Once

you see where you have losses to harvest, it's up to you to take action -- share this data with your tax professional so the two of you can decide on the best approach, or log in to your exchange(s) and sell your coin(s) to harvest the losses.

from. This is because all your coins are in the same “accounting” bucket.

Tax Professionals Resources ▾

To learn more about the rules and requirements around [crypto tax-loss harvesting](#) watch [this 22-minute on-demand webinar](#) with Pat Larsen, CEO and CoFounder of ZenLedger, and Andrew Gordon, JD/CPA, President of Gordon Law Group, Ltd.

“...it’s not just crypto, but crypto is a very liquid investment to use for tax-loss harvesting. After realizing the loss, investors can purchase a similar asset to maintain optimal asset allocation and expected returns.” - Andrew Gordon, JD/CPA, President of Gordon Law Group

The Bottom Line

Tax-loss harvesting is a great way to leverage any unrealized losses to offset short-term capital gains or income. Since crypto sales aren’t currently subject to wash sale rules, there is very little downside to the strategy and it could be used to realize a significant increase in after-tax returns. The key is exercising some discretion and using tools like ZenLedger to help.

ZenLedger easily calculates your crypto taxes and also finds opportunities for you to save money and trade smarter with our portfolio tracker. [Get started for free now](#) or learn more about our [tax professional prepared plans!](#)

Disclaimer: This material has been prepared for informational purposes only, and is not intended to provide, tax, legal or financial advice. You should consult your own tax, legal, and accounting advisors before engaging in any transaction.

Related Guides

[Tax Professionals](#)
[Resources](#)



Guide

A Complete US Guide To Crypto Taxes



ZenLedger

October 18, 2021



Guide

Non-Fungible Tokens (NFTs) & Crypto Taxes Guide - 2021 Edition



ZenLedger

October 1, 2021



Guide

DeFi Crypto Tax Guide: Yield Farming, Lending, Liquidity Pools, and More



ZenLedger

July 13, 2021



Guide

The Complete Guide to Crypto Tax-Loss Harvesting



ZenLedger

July 13, 2021



Guide

Comprehensive Crypto Tax Guide for Tax Professionals



ZenLedger

July 13, 2021

[Features](#)

[How it Works](#)

[Competitor Comparison](#)

[Exchanges](#)

[Pricing](#)

[Prepared Plans](#)

[Tax Professional Suite](#)

[Privacy Policy](#)

Help & Support

[Message Us](#)

[FAQs](#)

[About Us](#)

[Tax Professionals](#)

[Resources](#) ▼

[Contact Us](#)

Resources

[Our Blog](#)

[Crypto Tax Guides](#)

[Webinars](#)

[Affiliate Program](#)

[Press & Media](#)

[How Is Cryptocurrency](#)

[Taxed](#)

[Crypto Taxes 101](#)

[Bitcoin Taxes Guide](#)

[Crypto Calculator](#)

Mailing List

Simplifying DeFi, NFT, and Crypto Taxes for Investors and Tax Professionals



Copyright © 2021
ZenLedger
10400 NE 4th St, Floor #5,
Bellevue, WA 98004, USA
