

Soooo. You want to start using Cryptos? OK! Your taxes just got a LOT harder.

Victoria Carlin

vcarlin@dopkins.com

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A GRAND ANNOUNCEMENT

On October 21st, the top on-line digital payment company, PayPal Holdings, Inc. announced that their users will be able to start buying, selling, and holding one of the 4 main types of virtual “aka CRYPTO” currencies – BitCoin, LiteCoin, Ethereum, or BitCoin Cash – beginning in a few weeks, with Venmo users to follow in early 2021.

THE MAJOR PROBLEM

The U.S. government hasn’t managed, like in most things techie now-a-days, to update its laws related to even the mere existence of crypto currencies, much less how to handle them. Since they are a hybrid type of asset which can serve as both a currency and an investment, the ability for Congress to come up with a formal treatment is a nightmare in the making and not likely to happen any time soon given the current political climate.

AN AD HOC SOLUTION

The IRS has announced that while it was waiting for additional guidance from Congress, they had to come up with a solution. And what a solution it is - Virtual/Crypto currencies are to be (drum roll please) treated like Property. “Huh?” You say? Yep, while the Cryptos have all the hallmarks of money or an intangible (just try to touch it), they are to be treated more like a share of stock or a gold doubloon, with all of the headaches that come with buying, selling, earning or exchanging it, including one type of crypto for another. The IRS has even gone so far as to add a “helpful” FAQ section on cryptos on their website. Hieroglyphs anyone?

OH, THE PAIN!

At this time, it is unknown as to how PayPal, or better yet the IRS, is going to handle the required reporting of any transactions involving crypto currencies. While PayPal will have to come up with some method for allowing their users to track their transactions and values, it doesn’t mean that it is going to be easy for their users when it comes time to do their taxes.

WE GOT NADA

This is one area in which the IRS will need to decide if they will require PayPal to send everyone 1099B’s just like brokerage firms have to for stocks and bonds because they are now dealing in

property transactions. But until, or rather unless, that decision is made it falls on the taxpayer to meet the reporting requirements and pay the appropriate taxes. So, if you decide to get into using cryptos, then you better start keeping really, REALLY good records or you will hate yourself come tax time.

THAT CUP OF JOE JUST GOT MORE EXPENSIVE

One other caveat.....Starting some time in 2021, PayPal intends to allow people to begin paying for anything and everything using crypto at any merchants that currently accepts PayPal as a form of payment. Since the cryptos are treated as property, any time you make an exchange between types of cryptos or “cash it in” to pay for something, such as that morning cup of coffee, the increase in value between when you bought it and when you exchanged it is currently taxable as capital gain, just like a stock or bond (yeah, yeah, a capital loss if it loses money, but who wants that).

Oh and one last thing.....Don't forget to check the box “Yes” on the front of your 1040, right under your address. You know, the one where the IRS asks you if you have “acquired, exchanged or sold a financial interest in virtual currency?”

Yeah, that one.

If you wish to learn more, contact your Client Service Coordinator or [Victoria S. Carlin, CPA](mailto:vcarlin@dopkins.com) at vcarlin@dopkins.com.