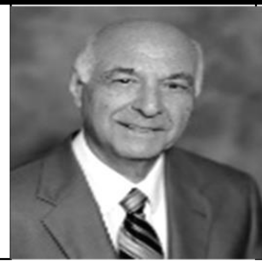
Financial, Legal & Tax Advisory

Published by The Center for Financial, Legal & Tax Planning, Inc. 07/2023

Roman A. Basi, President of The Center, is an Attorney, CPA, Real Estate Broker, and Title Insurance Agent. Roman speaks and advises The Center's clientele on such matters as Business Law, Succession, Estate & Tax Planning, and Real Estate.



Dr. Bart A. Basi, Senior Advisor of the Center for Financial, Legal & Tax Planning, Inc., is an expert on closely-held companies, an attorney, and CPA. He is a member of the American Bar Association's Tax Committees on Closely-Held Businesses and Business Planning.

Taxation of Digital Currency

According to the Internal Revenue Service (IRS), most cryptocurrencies are convertible virtual currencies. This means that they act as a medium of exchange, a store of value, a unit of account, and can be substituted for real money. In the U.S., cryptocurrencies like Bitcoin, are treated as property for tax purposes. Like other forms of property such as stocks, bonds, and real estate, you incur capital gains and losses on cryptocurrency investments when you sell, trade, or dispose of your cryptocurrency.

The tax rates fluctuate depending on your personal tax bracket and are decided on whether the gains fall under short-term (less than 12 months) or long-term (12 months or more). When do you owe taxes on your cryptocurrency? You trigger a tax reporting requirement whenever you incur a taxable event from your crypto investing activity. A taxable event simply refers to a scenario where you realize income. The following are all considered taxable events for cryptocurrency.

- Exchanging cryptocurrency for government-issued currency, called fiat money.
- Paying for goods, services, or property.
- Exchanging one cryptocurrency for another cryptocurrency.
- Receiving mined or forked cryptocurrencies.

There are also circumstances in which you do not owe taxes on your cryptocurrency. You do not trigger a taxable event whenever you:

- Buy cryptocurrency with fiat money.
- Donate cryptocurrency to a tax-exempt non-profit or charity.
- Making a gift of cryptocurrency to a third party (subject to gifting exclusions).
- Transferring cryptocurrency between wallets.

To calculate your capital gains and losses from each of your crypto sells, trades, or disposals, you can simply apply the formula: Fair Market Value – Cost Basis = Capital Gain/Loss. What is the fair market value for cryptocurrency?

FMV is the price an asset would sell for on the open market. In the case of cryptocurrency, this is typically the sale price in terms of U.S. Dollars. To determine your cost basis, this will represent how much money you put into purchasing the property (cryptocurrency). The cost basis will include your purchase price plus any other costs associated with the purchase (fees, etc.) Now that we know how to calculate the tax liability, how should we go about reporting our cryptocurrency on our taxes? If you are like most cryptocurrency investors, you more than likely have only bought, sold, and traded crypto.

This income is considered capital gains income and should be reported as such. However, if you earned cryptocurrency as a form of payment from a job, mining, staking, or earning interest rewards, that earned income will be treated as ordinary income. To report your capital gains and losses, you will need to file IRS Form 8949. Form 8949 reports sales and disposals of capital assets, including cryptocurrency, stocks, and bonds. To fill out Form 8949, list all your cryptocurrency trades, disposals, and sales. Make sure to include the date you acquired, sold/traded along with the fair market value your cost basis, and your gain/loss for the event.

Unfortunately, when it comes to ordinary income, the process is not as simple. There are specific situations in which a different tax form must be used. If you earned crypto as a business entity, you would report your earnings on Schedule C. If your income is derived from staking income or interest rewards from lending out cryptocurrency, this should be reported on Schedule B. If you were to treat your cryptocurrency events as a hobby, Schedule 1 would be used to report as other income. The cryptocurrency market is fast and wild. Nearly every day cryptocurrencies emerge, die, or stand stagnant. The world of crypto is forever changing from the viewpoint of taxpayers and the IRS. Please contact us at (618) 997-3436 for any other questions or guidance.

Basi, Basi & Associates at The Center for Financial, Legal, & Tax Planning, Inc.
Mergers & Acquisitions | Retirement and Estate Planning | Business Valuation | Tax Aspects of Business Decision
Accounting Service| Business Succession Planning | Strategic Planning and Negotiation for Buying or Selling a Business
4501 W DeYoung St., Suite 200 | Marion, IL 62959 Phone: (618) 997-3436 | Fax: (618) 997-8370 | www.taxplanning.com

BASI, BASI & ASSOCIATES AT THE CENTER FOR FINANCIAL, LEGAL & TAX PLANNING, INC

SCAN ME!

TO VIEW OUR WEBSITE

CHECK OUR WEBSITE ONLINE, OPEN YOUR PHONE CAMERA AND SCAN THIS QR CODE

4501 W DEYOUNG ST.,
SUITE 200 | MARION, IL 62959

618-997-3436

WWW.TAXPLANNING.COM

WWW.FACEBOOK.COM/TAXPLANNINGATTHECENTER

HTTPS://WWW.LINKEDIN.COM/COMPANY/BASIBASIASSOCIATES/

TWITTER.COM/_TAXPLANNING