How to file your crypto taxes in the US

The IRS isn’t turning a blind eye to crypto anymore. CPAs and software makers tell Decrypt how to avoid both headaches and penalties this tax season.

By Andrew Hayward 7 min read Feb 29, 2020

In brief

- The 2020 US individual income tax filing deadline is coming up on April 15.
- Cryptocurrency is now officially part of the 1040 individual tax return form.
- If you made any crypto transactions in 2019, you need to include that information in your return.

It’s that time of year again. Some of you might have already done the deed, but if not, the individual income tax filing date for the United States is coming up quickly on April 15. That gives you only a matter of weeks to rifle through receipts, statements, and accounts to get your financial reporting in order.

If you made any crypto transactions in 2019, then you need to include that information in your return—and you can't risk being lackadaisical about it this time around. While the US Internal Revenue Service (IRS) might not have seemed keenly focused on crypto in past years, crypto is now officially part of the 1040 individual tax return form following a push last year to collect unpaid taxes from traders.

Are you reporting crypto earnings for the first time or just want to make sure you're on the up and up? *Decrypt* spoke with crypto-focused certified public accountants (CPAs) and the developers of tax software services to learn more about filing crypto taxes this year—and what you need to keep in mind.

The IRS is watching crypto closely

There's no skirting around the topic now: the IRS has gotten very serious about crypto over the last year. In 2019, the IRS sent out more than 10,000 letters to US citizens citing unpaid taxes owed on crypto trades, based on information provided by exchanges.

Since then, the agency has issued guidance on crypto tax filing (note: don't worry about Fortnite V-Bucks), including an extensive Q&A, and is working with officials from other countries to try to stamp out global crypto tax evasion.

IRS
@IRSnews

#IRS has issued new guidance for taxpayers who engage in virtual currency transactions. See: go.usa.gov/xVeYT

4 5:00 PM - Oct 18, 2019

See IRS's other Tweets

Now, the following question is right at the top of the Schedule 1 form as part of the 1040 form for 2019: “At any time during 2019, did you receive, sell, send, exchange, or otherwise acquire any financial interest in any virtual currency?”

Robert Materazzi, GM of LukkaBusiness at crypto tax software firm Lukka, calls it “a big milestone” for the crypto industry—and one that traders won’t be able to feign ignorance on. "It's pretty much right up in everyone's face,” he tells *Decrypt*. “Every single tax filer will have to answer whether they had any virtual currency in 2019 in any way."

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Robert Materazzi

From what he’s seen, some crypto traders haven’t yet sensed the urgency of the situation, while others—especially those that have already been contacted by the IRS—aren’t taking things lightly. “Some taxpayers are like, 'I don't really believe that this is a thing,' and they're not looking at it in a serious way,” adds Materazzi. “And then others are looking at it in a very serious way, because maybe they got a letter directly from the IRS.”

Keep detailed records of crypto trades

Most kinds of coin movement must be reported, whether you’re selling cryptocurrency for fiat money, exchanging one kind of crypto for another, paying for goods and services with crypto, receiving crypto from mining or a fork, or are provided work compensation in crypto.

However, there are some notable exceptions. Typically, if you buy crypto with fiat money and then just hold onto it, that doesn’t need to be reported. Likewise, you don’t need to report crypto that is simply transferred from one of your wallets to another, or crypto donated to a charitable organization. In any case, when it comes to transactions that you *do* need to report, it’s on you to document everything.

CoinTracker
@CoinTracker

TFW your friend says they're not going to pay taxes on their Bitcoin because it's untraceable.

11 1:03 PM - Feb 10, 2020

See CoinTracker's other Tweets

“Individuals have a record-keeping duty when it comes to reporting transactions for tax purposes. When records are missing or incomplete, it becomes a much harder task to meet the reporting requirements,” explains CPA Ani Galyan, Esq. of Galyan Law, a member of the California Society of CPAs. “Every movement of a coin must be recorded to help the owner accurately determine cost basis of the coin and the holding period of the coin. Failure to keep accurate and complete records leads to misreporting for tax purposes, and if the reporting is examined by the Service, the owners will be subject to additional tax and penalties.”

Attempting to put all of those records together ahead of the tax deadline could be an exhausting process, but it is necessary. To avoid future pain, Galyan suggests that traders keep steady records to avoid this kind of scramble down the line.

Adopt a contemporaneous record-keeping habit.

Ani Galyan

“What I advise clients is to adopt a contemporaneous record-keeping habit. Whether it’s electronic or the old-fashioned pen and paper, anyone trading coins should make a note of when, what, and how much,” she adds. “In addition, clients are surprised to learn that some online records may become unavailable, and for that reason I encourage clients to make it a habit to download transactions/statements on a regular monthly or quarterly basis.”

Even if online records are available, they may not give you everything you need to complete your tax return. “Most crypto exchanges are not giving you any useful tax forms at year’s end,” says Shehan Chandrasekera, a CPA and also Head of Tax Strategy for tax software and crypto portfolio management tool CoinTracker. For example, he says the 1099-K and 1090-MISC forms still require you to calculate cost basis for each transaction, while a 1099-B may only be useful if you use a single exchange.

Consider using crypto tax software

Luckily, there is specialized software available to help you not only tackle your crypto taxes this year, but also manage the issue going forward. The aforementioned CoinTracker connects to more than 300 crypto exchanges and works with 2,500+ coins, plus it has a free basic tier for users who have 200 or fewer annual transactions.

Lukka
@LukkaTech

Today we announced our latest product, ‘LukkaTax’ — a ‘do-it-yourself’ tax preparation tool specifically aimed at helping those brave souls that want to calculate their own crypto tax exposure. Read @jeremydrane's LukkaTax story here: lukka.tech/hello-world-a-…

Hello World - A LukkaTax Story - Lukka

Hello World: A LukkaTax Story By jd [The press release on LukkaTax can be accessed here and the website here.] Good day Lukka Community! Today is another big one for the company as we announced our...
lukka.tech

6 10:35 AM - Dec 18, 2019

See Lukka's other Tweets

LukkaTax bills itself as the “lowest-cost” crypto tax software, and is $19.99 per year with no limit on the number of transactions. Materazzi tells *Decrypt* that the company recently had a pair of users with more than 400,000 reported transactions apiece, and that they paid the same rate as everyone else. LukkaTax also supports refiling needs for 2017 and 2018 and the ability to optimize gains and losses via HIFO, FIFO, and LIFO methods to minimize the tax liability.

While these and other software options seem primed to handle the complexities of crypto transactions, Galyan still advises monitoring the results to make sure that everything adds up — particularly when it comes to short-term and long-term positions for coins that have been transferred between wallets. “In my experience, software works fine when computing simple trades on a single exchange,” she says, “however, users should be aware of the drawbacks when trades happen across different exchanges and wallets."

Come clean about past crypto taxes

Didn't file crypto taxes for previous years before 2019? You're not alone on that front, considering the number of letters the IRS sent out last year—but it's probably time to set things right. Ideally, you want to be the one to begin that process of sorting out past records, rather than waiting for the IRS to come calling.

"The IRS and the Department of Justice have collected information from Coinbase and have advised account holders to correct prior non-reporting," says Galyan. "It is advisable that taxpayers who have previously unreported activity come forward voluntarily prior to being contacted by the Service for examination. A competent tax advisor will be able to guide the users through making a voluntary disclosure and correcting prior non-compliance."

When it comes to taxes, the crypto industry isn't the Wild West anymore. The IRS expects you to not only sort out your records for 2019, but also to catch back up on prior years. It's likely to save you further hassle down the line, explains CoinTracker's Chandrasekera.

The days of not reporting until you get caught are over.

Shehan Chandrasekera

"The days of not reporting until you get caught are over. Crypto tax guidance is out there, and if you trade crypto, you should report gains and losses," he tells *Decrypt*. "If you report something, it starts your statue of limitation. This means typically after three years of reporting, the IRS cannot come after you unless you have commited fraud or largely underreported your income. The main takeaway is that reporting something is always better than reporting nothing."