

The IRS Begins Advising Cryptocurrency Users to File Tax Returns

07.30.19

Written by Dmitri Alexeev and Clifton Poon

On Friday, the Internal Revenue Service announced it has begun sending educational letters to taxpayers who may have failed to report income or pay tax resulting from virtual currency – or cryptocurrency – transactions. These letters are advising virtual currency owners to file tax returns and pay back taxes, including filing amended tax returns.

These ongoing IRS compliance efforts, with respect to virtual currency transactions, are consistent with Virtual Currency campaign announced July 2, 2018 by the IRS Large Business and International division (LB&I). As part of the campaign, the IRS continues to address tax noncompliance, related to the use of virtual currency, through multiple treatment streams including education, outreach and examinations.

Taxpayers receiving the education letters will see one of the three specific variations: Letter 6173, Letter 6174 or Letter 6174-A. The purpose of these letters is to help the virtual currency owners (1) understand their tax filing and reporting obligations; (2) to help taxpayer correct past tax reporting mistakes; and (3) pay back taxes, including interest and penalties. The letters contain information about various IRS resources, including forms, schedules, and disclosures and filing and payment instructions.

The United States Department of the Treasury and the IRS, through various compliance efforts and data analytics, identified more than 10,000 taxpayers who may have either failed to report the virtual currency transactions or may have not fully complied with the tax law. The IRS started sending the letters the week of July 15.

IRS Commissioner Chuck Rettig reiterated taxpayers should take these letters very seriously by reviewing their tax filings and, when appropriate, amend past returns and pay back taxes, including interest and penalties. He also stressed the IRS is expanding its efforts involving virtual currency, including increased use of data analytics.

The IRS compliance activities follow the general tax principles applicable to all transactions in property, as outlined in the IRS Notice 2014-21. The IRS will continue to consider and solicit taxpayer and practitioner feedback in education efforts, future guidance, and development of its Practice Units.

At BPM, we understand the IRS is not contemplating a voluntary disclosure program specifically to address noncompliant virtual currency transactions. The IRS is urging taxpayers with unreported virtual currency transactions to comply as soon as practical. Taxpayers who choose to ignore the warning may face criminal prosecution.

The IRS anticipates issuing additional virtual currency tax legal guidance to supplement Notice 2014-21. However, it is unknown if the future guidance will only focus on convertible virtual currency transactions or broader categories of digital assets, including non-convertible virtual currency transactions.

If you have received correspondence from the IRS related to virtual currency transactions, or need assistance with any tax, assurance or advisory services, contact Dmitri Alexeev or reach out to BPM's Blockchain and Digital Assets team.

About BPM

BPM is one of the largest West Coast-based CPA firms that specializes in serving the digital assets and blockchain industry. BPM provides individual and business tax compliance, consulting and tax structuring services. Our professionals have extensive knowledge and experience in dealing with accounting and auditing matters, as well as regulatory and compliance issues, including revenue recognition, IT compliance, enterprise risk management and classification of digital assets.