

# CRYPTO TAX SIMPLIFIED

Simplifying Rules and Regulations  
for Crypto Enthusiasts



## About The Author, Wiligent, LLC



At **Wiligent**, we pride ourselves on being your ultimate destination for all things related to Crypto Tax, Forensic Accounting, and Anti-Money Laundering or Financial Crimes Compliance. We offer specialized services designed to cater to your needs in cryptocurrency taxation, forensic accounting, and ensuring compliance with financial crime regulations. Our primary goal is to guarantee that your digital asset trading and financial activities are conducted with transparency, security, and in full adherence to the laws and regulations in place. Our team is dedicated to simplifying the complexities of compliance so that you can focus on your core business activities with peace of mind.

When you partner with Wiligent, you can trust that you are working with experts who are committed to providing you with comprehensive solutions tailored to your specific requirements. Whether you are a digital asset trader seeking assistance with crypto tax implications, an organization in need of forensic accounting services, or a business looking to enhance your compliance with anti-money laundering and financial crime regulations, Wiligent is here to support you every step of the way. Let us handle the intricacies of regulatory compliance so that you can concentrate on growing your business and achieving your financial goals with confidence.

Choose Wiligent as your trusted partner in navigating the complexities of crypto tax, forensic accounting, and anti-money laundering or financial crimes compliance. With our expertise and dedication to your success, you can rest assured that your financial activities are in safe hands, and your compliance obligations are met efficiently and effectively. Contact us today to learn more about how Wiligent can streamline your compliance processes and help you achieve peace of mind in your digital asset and financial endeavors.

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# Introduction



**Cryptocurrency** is a digital or virtual currency that uses cryptography to secure and verify transactions. Unlike traditional currencies issued and controlled by governments or central banks, cryptocurrencies operate on decentralized networks that rely on blockchain technology. Blockchain is a distributed ledger system that records and validates all transactions on the network, making them transparent and immutable.

**Cryptocurrencies** offer several advantages over traditional currencies, such as lower transaction costs, faster and global transfers, increased financial inclusion, and resistance to inflation and manipulation. However, they also face several challenges, such as price volatility, regulatory uncertainty, technical complexity, security risks, and environmental concerns. Moreover, cryptocurrencies pose unique tax implications for users, investors, and authorities, as they are subject to different rules and regulations depending on the jurisdiction and the type of transaction.

**This eBook aims to provide a comprehensive and up-to-date guide on the taxation of cryptocurrencies in the US. It will cover the following topics:**



## Cryptocurrency as Property

This chapter will discuss how the IRS treats cryptocurrency as property for tax purposes and what this means for crypto users and investors.



## Calculating and Reporting Crypto Taxes

This chapter will explain calculating and reporting crypto taxes, including the required methods, tools, forms, and documents.



## Crypto Tax Strategies and Opportunities

This chapter will explore ways to minimize and optimize crypto taxes and the potential tax benefits and incentives for crypto-related activities.



## Conclusion

This chapter will summarize the main points and findings of the eBook, as well as provide some tips and recommendations for future planning and compliance.

This eBook will help you understand the tax implications of cryptocurrencies in the US and how to navigate them effectively. It's suitable for beginners and experts and provides valuable insights and practical advice to help you make informed decisions and avoid common pitfalls — explain what cryptocurrency is and how it works.

# Cryptocurrency as Property



It is crucial to understand how the IRS categorizes cryptocurrency for tax purposes as it impacts how it is taxed. The IRS considers cryptocurrency as property, not currency. Therefore, the tax rules for property transactions also apply to transactions using cryptocurrency<sup>1</sup>.

The IRS considers cryptocurrency property, which means that each time it is sold, exchanged, or used, it could result in a taxable event that incurs either a capital gain or loss. Tax is calculated by subtracting the adjusted basis of the crypto from its fair market value at the time of the transaction<sup>1</sup>. If the crypto is held for over a year, it is classified as a long-term capital asset and must be taxed at preferential rates of 0% or 20%, depending on the taxpayer's income level. If the crypto is held for one year or less, it is classified as a short-term capital asset and taxed at the ordinary income tax rates, ranging from 10% to 37%.

Crypto investors can use tax strategies like offsetting gains with losses, deferring taxes via like-kind exchanges, donating to charity, and holding for long-term capital gains. However, be aware of potential tax pitfalls such as the lack of clear guidance, complexity of recordkeeping, risk of audits, and penalties for noncompliance.

There are several instances where cryptocurrency can be subject to taxation, which include:

Method	Examples
 Selling cryptocurrency for fiat currency	Exchanging Bitcoin for U.S. dollars or euros
 Exchanging cryptocurrency for property, goods, or services	Buying a car or a pizza with crypto
 Trading one cryptocurrency for another cryptocurrency	Swapping Bitcoin for Ethereum
 Receiving cryptocurrency as payment for goods or services	Getting Bitcoin Cash from holding Bitcoin
 Receiving a new cryptocurrency because of a hard fork	Earning rewards for validating transactions or securing the network
 Receiving a cryptocurrency because of an airdrop	Receiving a cryptocurrency because of an airdrop
 Receiving a new cryptocurrency because of mining, staking, or other on-chain activities	Getting free tokens for joining a new platform or project

In summary, cryptocurrencies are treated as property by the IRS. Therefore, tax rules and principles applicable to other property transactions apply. This chapter discussed the ruling and implications for crypto taxation and provided examples of taxable events.

1. Digital Assets | Internal Revenue Service <https://www.irs.gov/businesses/small-businesses-self-employed/digital-assets>

## Forms and Documents Required for Reporting Crypto Taxes

To report your cryptocurrency activity, you must fill out tax forms based on the transaction and account type. Transactions subject to capital gains tax should be reported on Form 8949, while those subject to ordinary income tax should be reported on Schedule 1 for individual investors.



**Form 1040:** This is the form for filing your income tax return. Report all income, including digital assets and capital gains/losses, on line 7. Also, since the tax year 2021, you need to answer the Digital Assets question with a “yes” or “no” on the first page of Form 1040. For tax year 2023, the Digital Asset question reads as follows: “At any time during 2023, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, or otherwise dispose of a digital asset (or a financial interest in a digital asset)?” (see 2023 IRS Form 1040).



**Schedule D:** Use this form to report capital gains or losses from selling or exchanging capital assets, including cryptocurrency. Attach it to your Form 1040 if you have crypto transactions with gains or losses.



**Form 8949:** Report each crypto transaction that resulted in a capital gain or loss by providing the date acquired, date sold, proceeds, cost basis, and gain or loss for each transaction. Indicate the cost basis method and whether the transaction was short-term or long-term. Attach this form to your Schedule D if you have any crypto transactions that require Form 8949.



**Schedule C:** Fill out this form to report your self-employment or business income and expenses, including crypto activities. Attach it to Form 1040 if you have any crypto income or expenses.



**Schedule SE:** This form calculates and reports your self-employment tax, including Social Security and Medicare taxes for self-employed individuals. Attach it to Form 1040 if you have crypto income subject to self-employment tax.

## Tips and Best Practices for Avoiding Common Errors and Pitfalls

To avoid issues with crypto taxes, stay updated on local tax laws, accurately calculate gains and losses, and report taxable events correctly. Seek professional tax advice and use specialized tax software. Tips for avoiding mistakes in reporting crypto taxes:



Keep track of your crypto transactions and report them if required.



Choose a consistent and appropriate cost-basis method to avoid paying extra taxes or violating IRS rules.



Don't forget to include fees and expenses in your calculations and reports.





Crypto taxes can be complex but necessary. This chapter covered tax calculation methods, record-keeping, tax reporting forms and documents, and best practices. The next chapter will discuss minimizing taxes and potential benefits for crypto activities.

# Crypto Tax Strategies and Opportunities

In this chapter, we'll discuss minimizing crypto taxes, exploring tax benefits for crypto activities, analyzing recent tax law changes, and offering guidance for complying with crypto tax regulations.




## Ways to Minimize and Optimize Crypto Taxes

Various strategies can assist you in reducing your crypto tax liability, depending on your situation and goals. Some of the most common and effective ones include:

Method	Tax Benefit	Additional Information
 <b>Holding for over a year</b>	Lower long-term capital gains taxes (0-20%)	Based on income
 <b>Selling at a loss</b>	Offset capital gains and up to \$3,000 of ordinary income	Carry over any net loss exceeding this amount to the next tax year
 <b>Donating to charity</b>	Deduct fair market value from income (subject to limits)	Reduces taxable income, supports a good cause, and avoids capital gains tax
 <b>Investing in Opportunity Zones</b>	Defers tax payments until 2026, reduces tax liability by up to 15%, no tax on appreciation if held for ten years	For investors who reinvest their capital gains in qualified projects or businesses in Opportunity Zones

## Potential Tax Benefits and Incentives for Crypto-Related Activities

In addition to general tax strategies, there are specific tax benefits for certain crypto activities. For example,

Strategy for Consideration	Possible Benefit
 <b>Investing in QSB dealing with crypto</b>	Eligible for tax break under Section 1202, can exclude up to 100% of capital gains, up to \$10 million or ten times your basis, if held for at least 5 years
 <b>DeFi</b>	Fast-growing sector, offers financial services and products without intermediaries, has tax benefits, poses tax challenges like tracking complex transactions and complying with different tax rules
 <b>Mining or staking crypto</b>	Can be profitable business or hobby, if mined as a business can deduct expenses and pay tax on profit, as a hobby can only deduct expenses up to income and pay tax on gross income, may need to pay self-employment tax

## Impact of Recent and Proposed Tax Law Changes on Cryptocurrency

Cryptocurrency tax rules constantly change to keep up with the industry's fast pace. Recent and proposed tax laws may affect cryptocurrency, such as:



The Bipartisan Infrastructure Deal, signed into law by President Biden in November 2021, includes provisions that impact crypto taxation. One provision expands the definition of "broker" for tax reporting purposes to include any person regularly providing a service effectuating transfers of digital assets. Another provision imposes new information reporting requirements for brokers, including reporting each customer's name, address, and taxpayer identification number, as well as the amount and type of digital assets transferred. These provisions aim to increase tax compliance and revenue from the crypto sector but have raised concerns from the crypto community regarding the new rules' clarity, feasibility, and scope.

**The Build Back Better Act** is a proposed legislation that could affect crypto taxation. It includes provisions such as eliminating the wash sale rule exception for crypto, extending the constructive sale rule to crypto, and increasing the top capital gains tax rate. These provisions could increase the tax burden and complexity for crypto investors, especially those who engage in frequent or sophisticated trading strategies.

## Conclusion

In this ebook, we have explored the topic of cryptocurrency taxation in the US, covering the following aspects:

- 1 Cryptocurrency basics and how it works.** We provide some background and history of cryptocurrency and its adoption, highlight the main benefits and challenges of using cryptocurrency, and state the purpose and scope of the eBook.
- 2 Cryptocurrency is treated as property by the IRS for tax purposes.** People who use or invest in it are taxed similarly to other capital assets. Taxable events for cryptocurrency include selling, trading, spending, gifting, mining, staking, and more.
- 3 We covered how to calculate and report crypto taxes** using methods like FIFO, LIFO, HIFO, and specific identification. We stressed the significance of keeping records and tracking crypto transactions' cost basis and fair market value. We also reviewed the forms and documents needed for reporting crypto taxes and gave tips to avoid common errors.
- 4 We discussed Crypto Tax Strategies and Opportunities,** including ways to minimize and optimize taxes, tax benefits for crypto activities, and tax law changes impacting cryptocurrency.

After reading this eBook, you should have a better grasp of the tax consequences of cryptocurrencies in the United States and how to navigate them in a practical and efficient manner. Whether you are a novice or an experienced crypto user, this ebook has given you valuable knowledge and actionable guidance to help you make well-informed choices and avoid typical mistakes.

Note that this eBook isn't a definitive guide to crypto taxation and should not replace the advice of a tax professional. Always consult a qualified tax professional before engaging in any crypto transactions or activities. Stay current with the latest developments and changes in tax laws relevant to your situation and objectives.

We hope you found this eBook helpful and informative and enjoyed reading it as much as we enjoyed writing it. If you have any feedback or questions, please don't hesitate to find us and contact us at



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Thank you for your interest and attention, and happy crypto tax planning!



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