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# Bitcoin Users Brace For IRS Audits From Coinbase Summons

The IRS's war on alternative currencies is [heating up](#), and many will be affected, though how—and how seriously—remains to be seen. To recap, a federal district court has [ordered that Coinbase Inc. should turn over its customer account information to the government](#). Many Bitcoin and other digital currency users are worried that the IRS will get their account information from Coinbase. What's more, the IRS can use it to audit them, or worse, to mount a criminal investigation. Is it time to panic? Not quite.

Coinbase in the past has said it is committed to customer privacy and [will oppose](#) the government's efforts to obtain its customer account information. That could mean an appeal of the District Court's order, and more delay. But even if the IRS gets its paws on the user data soon, it may not immediately lead to audits. The information will surely be difficult for the government to sort through. Simply sending or receiving bitcoins does not necessarily mean someone owes additional tax, even if large quantities of bitcoins have changed hands. There are still many dots to connect, and it may take the government time to do so.



*(Photographer: Chris Ratcliffe/Bloomberg)*

Even so, should you really count on all these things breaking your way? Not hardly. Digital currency users should be concerned, and should prepare. The IRS taxes income from all sources, and gains and losses from property transactions too. You don't want to be accused of [tax evasion](#). For those who have not properly reported all their digital currency transactions to the IRS, now is a good time to consider cleaning up past filings. The government's recent pressure on offshore account holders is filled with good lessons.

For the past decade, the IRS has relentlessly pursued Americans with unreported foreign accounts. The IRS has sometimes found it hard to tie foreign accounts to particular U.S. taxpayers, and to tax cheats specifically. The government has often been slow to connect the dots. Slow or not, the government gets what it wants in the end. The IRS's efforts have been wildly successful, and [offshore account collections top \\$10 billion now](#). The IRS is likely eyeing digital currencies as a similar treasure trove of unpaid taxes.

The track record of offshore account compliance enforcement is telling, if not downright frightening. Those who fixed their offshore account filings and came forward early often faced lower penalties and no criminal charges. Many of those that waited to come forward faced higher penalties, and, in some cases, even criminal investigations. Many taxpayers who figured that the whole mess would blow over ended up spending much more money later.

Digital currency users should heed these lessons. It simply is not worth the risk of waiting to see if the IRS will find you. Whether you need to fix your filings or pay additional tax, it's best to consider your options sooner rather than later. Here are some topics digital currency users may want to discuss with an accountant or tax lawyer. Either may be able to help, though if you fear criminal exposure, you might want to consider [how to get attorney-client privilege with your accountant](#):

- Should I amend past income tax returns? Payments you received in Bitcoin or other digital currencies may be considered income, and failure to fully report the income on your returns can lead to civil and even criminal penalties.
- Do I need to file information reporting returns? For digital currencies held in accounts offshore, [Forms 8938](#) or [FBARs](#) may be required. The "location" of a virtual Bitcoin account may be hard to pin down, but if you have had over \$10,000 USD worth of bitcoin or other digital currencies stored on a computer or server located outside the U.S., you may be responsible for filing information reports.

Businesses dealing in digital currencies may have the same concerns as individual users. But they may face these too:

- Have we filed all the necessary Forms 1099? Two years ago, the IRS [issued a notice](#) saying that Bitcoin is property, not currency. The IRS said that Forms 1099 must be filed for payments to independent contractors in digital currencies.
- Have we filed all the necessary Forms W-2? The same IRS notice said that wages paid to employees in digital currencies must be reported on a Form W-2, and are subject to income tax withholding and payroll taxes. Failure to pay payroll taxes is serious, and can lead to civil penalties on the individual officers of the business, and even criminal charges.

There may still be some time before the IRS ramps up for digital currency audits. But for those who are at risk, now may be a good time to prepare.

*For alerts to future tax articles, email me at [Wood@WoodLLP.com](mailto:Wood@WoodLLP.com). This discussion is not legal advice.*