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Hidden Cash Or Hidden Bitcoin Discovery Is Windfall To IRS Too

It is hard to resist a mystery man handing out no-strings Hidden Cash. It now appears that the benefactor is Jason Buzi, whose role as Mr. Hidden Cash was revealed by [Inside Edition](#). Tweets from handle @HiddenCash give clues. The feel-good story started in San Francisco.

And whether it is the same benefactor branching out to other locales or copycats, it is a nice trend. He has spawned emulators in the US and the UK. Yes, @HiddenCash_UK has left envelopes filled with £50 or more in London, Sheffield, Manchester and other cities. The money-driven scavenger hunts should make everyone happy, especially if you dig up some green.

But it's worth considering whether you should post that photo or tell your friends all about your big find. After all, the IRS may be watching. These aren't charitable contributions, not in the traditional sense. They are a kind of grassroots giveback but probably aren't gifts either. After a small start, [Hidden Cash](#), sparked a multi-city frenzy. The cash man has attracted more than [441,000 followers on his Twitter account](#) where he gives clues to the location of the hidden money.

What if plain old cash isn't hip enough for you? Then you can check out @SFHiddenBitcoin. The idea is similar, though it's so far appropriately only in San Francisco, where Bitcoin might aspire to be a kind of local currency. And just like the Hidden Cash, the mystery Bitcoins are, well, mystery.



(Photo credit: twodolla)

Clues at @SFHiddenBitcoin provide tips where to find Bitcoin wallets looking like small sheets of aluminum. There's a QR code, a Bitcoin address and the @SFHiddenBitcoin Twitter handle. If you figure out the clues, you might find a wallet containing 0.0333 bitcoin, about \$20.

California Gov. Jerry Brown signed legislation legalizing Bitcoin, although Bitcoin probably didn't need California's official stamp of approval. The IRS, on the other hand, isn't so sure. In fact, in March of 2014, the IRS issued [Notice 2014-21](#) ruling that Bitcoin is property (not currency) for tax purposes. That means:

- Bitcoin payments to independent contractors are taxable and payers must issue [Form 1099](#).
- Gain or loss from the sale or exchange of Bitcoin depends on whether it is a capital asset in your hands.
- Bitcoin payments are [subject to Form 1099 reporting](#) just like any other payment made in property.

If you find hidden cash, must you pay tax on it? Yes, it's income, just like anything else. The same is true for Bitcoin, although there's an extra wrinkle given that the Bitcoin has to be valued. Although the IRS might not find you, remember, you file taxes under penalties of perjury. Explaining away congratulatory pictures with your winnings could be awkward or worse.

Isn't there an exception that could make finding cash tax-free? Unless the cash or Bitcoin qualifies as a gift, not really. The IRS calls *whatever* you find "treasure trove." When an anonymous couple found \$10 million in rare gold coins buried on their California property, it was the biggest coin discovery in U.S. history. The face value of the coins was more than \$28,000.

Their market value? Over \$10 million. Most tax experts agreed that the IRS was entitled to tax the full \$10 million, not the \$28,000 face value. In fact, treasure trove is just one example of the astounding breadth of what is income for U.S. tax purposes.

Cash and valuables you find are taxed. So says *Cesarini v. United States*, involving cash found in a piano. Mr. Cesarini bought an old piano for \$15 and found about \$5,000 in cash inside. When the IRS said it was taxable income, Mr. Cesarini went to court.

But the IRS won at trial and won appeal. Of course, the IRS likes this case. It is often cited for the rule that the IRS gets a piece of just about everything. In fact, about the only way you can find something and *not* have to pay tax on it is if you're recovering your *own* property.

In that case, your recovery generally *shouldn't* be income. Stolen art later recovered? If you can prove it's yours, it's not taxed. You're just getting it back. But even then, exceptions can trigger taxes.

Under the "tax benefit rule," if you claimed a tax deduction for theft or loss of the property, you have to include the value of the recovered property in your income when you recover it. And if the property has gone up in value in the interim, you get stuck with tax on the increased value.

So if you find cash or Bitcoin, congratulations! Don't let the inevitable tax bite rain on the excitement. The IRS gets a piece of almost everything.

You can reach me at Wood@WoodLLP.com. This discussion is not intended as legal advice, and cannot be relied upon for any purpose without the services of a qualified professional.