

AUG 16, 2019

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IRS Crypto Reporting Letter: A Wake-Up Call No Matter Who Gets One



EXPERT TAKE

The IRS has [begun sending letters](#) to people with digital currency transactions who may have failed to report income and pay taxes, or who did not report their transactions properly. By the end of August, more than 10,000 taxpayers will receive the letters, targets the IRS says it obtained through various ongoing IRS-compliance efforts. [According to the head of the IRS](#), Commissioner Chuck Rettig:

"Taxpayers should take these letters very seriously by reviewing their tax filings and when appropriate, amend past returns and pay back taxes, interest and penalties. The IRS is expanding our efforts involving virtual currency, including increased use of data analytics. We are focused on enforcing the law and helping taxpayers fully understand and meet their obligations."

IRS letters

There are three versions of the IRS missive: [Letter 6173](#), [Letter 6174](#) or [Letter 6174-A](#). They all stress their tax and filing obligations and how to correct past errors. They refer to information on IRS.gov, including which forms and schedules to use and where to send them. Recipients of the IRS letter are on notice, as the IRS thinks they may need to report. So, take a look at what you reported, and fix whatever you missed.

Actually, though, even if you don't receive one of these IRS letters, you should consider doing the same thing. After all, the mere fact that you don't receive a letter does not mean you are in the clear. Besides, basic reporting isn't that hard. Amending tax returns to ask for big tax refunds is a well-known audit trigger. Amending to report extra income and pay extra tax is usually much less so and can head off much bigger problems. Still, when [amending your taxes, be careful with the IRS](#).

Of course, not everyone is going to look at this situation, or their own facts, with the same degree of concern. If you get an IRS letter, don't ignore it. Consider making corrective filings for a number of past years and paying taxes without being asked. The IRS is generally considerably more forgiving if a taxpayer makes corrective filings before being audited or investigated. These letters can be seen as a warning that you could be next. If you want to be extra careful and limit IRS access to documents, consider [how to get attorney-client privilege with an accountant](#).

Remember, digital currency is an ongoing focus area for IRS criminal investigation. Last year, the IRS announced a [Virtual Currency Compliance campaign](#) to address tax noncompliance related to the use of digital currency through outreach and examinations of taxpayers. The IRS says it will remain actively engaged in addressing noncompliance related to digital currency transactions through a variety of efforts, ranging from taxpayer education to audits and criminal investigations. For some time now, the [IRS has been hunting user identities with software](#) too.

Sadly, there is little crypto guidance from the IRS so far. IRS [Notice 2014-21](#) states that digital currency is property for federal tax purposes and provides guidance on how general federal tax principles apply to digital currency transactions. Compliance efforts follow these general tax principles. The IRS will continue to consider and solicit taxpayer and practitioner feedback in education efforts and future guidance.

The IRS anticipates issuing additional legal guidance in this area in the near future. Taxpayers who do not properly report the income tax consequences of digital currency transactions are, when appropriate, liable for tax, penalties and interest. In some cases, taxpayers could be subject to criminal prosecution. More information [digital currencies](#) can be found on IRS.gov.