How Do You Report Your Crypto Taxes?

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If you invest in or trade cryptocurrencies, your goal is to make a profit. When you take that profit by converting you crypto back into dollars, you owe the IRS taxes on your capital gains. Whether you pay short term capital gains or long term capital gains depends on how long you held your crypto tokens before selling them. For anyone who makes an occasional withdrawal, the issue is not all that difficult. For anyone who buys and sells crypto many times a year or month or day, it can be complicated. How do you report your crypto taxes when you have a constant stream of crypto purchases and sales?

Crypto Tax Reporting Requirements

If you have crypto-related taxes to pay, that is your responsibility. However, it is also the responsibility of the exchange that you work through to report your crypto transactions as well. The IRS and Department of the Treasury are proposing a new **crypto tax reporting rule** that will include crypto tokens, NFTs, and any other digital assets. For example, if you are engaging in blockchain gaming and are making a profit from time to time, you will need to be paying taxes on your gains. And the exchange or other entity though which you are working will need to report this.

Paying Someone to Do Your Crypto Taxes

Anyone with even a moderately complicated tax situation typically pays someone to do their taxes. This typically has to do with deductions for losses, taking depreciation on assets, and the like. In the case of multiple crypto transactions, gains, and losses, there are tax tools that will help sort this out, do the multiple calculations involved and make your crypto-tax-paying life a lot easier. And the exchange through which you do your trading should be providing you with the same information that they are going to provide to the IRS. Your platform may facilitate **crypto tax reporting** by offering an API that links directly to a tax reporting tool.

Learn About Capital Gains Taxes

If you buy and sell cryptocurrencies and try to time the market you may have been successful. Perhaps you recognized in January of 2023 that the crypto winter market had bottomed out. You purchased Bitcoin at $16,600 and now hold tokens worth $25,680 at the start of September. You could have sold in July when the token peaked at over $31,000 but you decided to wait until you had held the tokens for a year to avoid short term capital gains taxes. Depending on your tax bracket, short term capital gains taxes range from 10% to 37%. And depending on your tax bracket, long term capital gains range from 0% to 20%.

If you are in the lowest tax bracket your short term gains on selling in July would have been $31,000-$16,600 = $14,400. Taxes for this short term capital gain would have been $1,440. You would have done better selling and paying your taxes than holding until the price fell. This all assumes that Bitcoin will trade sideways for the next year. In the lowest tax bracket your gains at the end of a year of holding your Bitcoin will be your profit times zero percent. Knowing when to buy and sell as the market rises and falls is important. But so is knowing the difference between short and long term capital gains taxes. If you do not understand how this applies to you after a series of complex trades, get advice from an expert!

For more insights and useful information about investments and investing, visit www.ProfitableInvestingTips.com.

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