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IRS Bitcoin Trap

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The IRS tax form for 2020 will ask if you bought, sold, or had any financial interest in any virtual currency. You will need to answer yes or no. This IRS bitcoin trap is another step in the Internal Revenue Service tracking down those who did not report money gained from buying and selling cryptocurrencies. The question will be near the top of Form 1040 and hard to miss. It appears that the IRS is going to be treating hiding cryptocurrency gains like they have hidden offshore bank accounts.

IRS Bitcoin Trap

The precise language on Form 1040 will be this:

At any time during 2020, did you receive, sell, send, exchange, or otherwise acquire any financial interest in any virtual currency?

You can only mark yes or no as answers. The obvious concern here is that if you say no and are later found to have had cryptocurrency gains, you will be in trouble for tax evasion for not having paid for perjury for denying any gains on your Form 1040. Any problems might not come right away but now that the IRS gets reports from cryptocurrency dealers, they will probably find out in the long term.

Cryptocurrencies as Capital Assets

Although the details of [cryptocurrency investment regulation](#) are still being worked out, the IRS has considered cryptocurrencies to be capital assets since 2014. This puts your Bitcoin investments in the same category as bonds and bonds. As such, gains are taxed as short term capital gains or long term capital gains depending on how long you held the asset before selling. Incidentally, money you make mining cryptocurrencies is also subject to taxation.

IRS Access to Cryptocurrency Info

Coinbase is the largest virtual currency custodian in the world. In 2018 the IRS forced them to turn over information about thirteen thousand account holders. We can expect the IRS to continue to pursue this course of action with the goal of eventually having access to all cryptocurrency accounts. That will especially be the case as Bitcoin and others move into the mainstream and are subject to regulation similar to regular currencies. For the 2019 tax return, the IRS listed the same question on Schedule 1 for reporting adjustments to income and additional income. Because many people do not file a schedule 1 form the question was not answered. It will be now that it is on the first page of Form 1040.

Should you choose to report cryptocurrency transactions, holdings, and gains, Form 1040 will provide instructions. The tricky bit is that people who use cryptocurrencies as they were originally intended, as a

currency for day to day transactions, will have a good many transactions to figure out and decide if they had a capital gain or loss and if the gain or loss was short term or long term! Then you will be reporting on Schedule D of the 1040 form.

Do I Get Taxed for Holding a Cryptocurrency?

If you were fortunate to have purchased Bitcoin years ago and still have several, you have an “unrealized” gain and are not subject to taxation. However, you will be subject to IRS reporting requirements on Form 1040. The sticking point is if you cashed out Bitcoin that you purchased for \$100 for \$19,000 and did not report a taxable gain, you probably should consult a tax attorney or tax lawyer and decide how to deal with the issue.

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