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Taxation of Cryptocurrency Profits

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If you bought bitcoin or any of the other cryptocurrencies just a few years ago you may be sitting on huge potential profits. If you have taken some of those gains you need to be concerned about taxation of cryptocurrency profits. People have bought cryptocurrencies because of the profit potential. They have also been attracted to the idea that the cryptocurrency system operates outside of the normal financial system. As such, many may have been under the belief that they could cash out their bitcoins or other cryptocurrency and not pay any taxes. However, taxation of cryptocurrency profits is real and the IRS is getting very serious.

Is Crypto Taxed in the U.S?

As we noted in our article, [Buying Cryptocurrency 101](#),

Cryptocurrency exchanges in the USA now need to report to the IRS (IRS Form 8949, Schedule D).

The IRS won lawsuits several years ago that allow it to treat gains from cryptocurrency the same as for capital gains from stocks and other assets. Likewise, gifts of cryptocurrencies are also subject to taxation. They have been pursuing this aggressively and have just recently won two more lawsuits forcing cryptocurrency exchanges to provide information about their customers. If you do not get a 1099 form from your cryptocurrency exchange, you are still liable for capital gains taxes! Those who have been thinking about taking a profit on their cryptocurrency investments may wish to do so before [capital gains taxes go](#) up under the Biden administration. Those who have previously taken profits and not paid taxes may wish to consult a tax lawyer before they get a summons from the IRS.

How Much Is Crypto Taxed?

Taxation of cryptocurrency profits is like taxation for capital gains on stocks. Currently you have a higher tax rate for short term (less than a year) investments and a lower rate for long term investments. The Biden administration is proposing a substantially higher capital gains rate across the board for those earning more than \$400,000 a year. If you are in the potentially higher bracket for capital gains and are thinking of taking a profit, you may wish to act now instead of waiting to see how the tax law reads next year.

A fly in the ointment in the case of cryptocurrencies is that they can be used as currencies as was the original purpose of bitcoin. So, if you have not bought and sold bitcoin but have used it to gamble at a bitcoin casino, purchase a car, or otherwise engage in a financial transaction by exchanging cryptocurrency for goods, services, or real currency, you have probably created a tax liability. This has to do with whether or not the cash basis of the cryptocurrency at the time you made a transaction was less than the value of the transaction. In other words, you bought bitcoin for \$100 and now are buying a \$50,000 car, you have a tax problem. On the other hand, you could also have had a loss in which case it would be beneficial to report to the IRS and use the

loss as a write off.

How Do I Avoid Crypto Taxes?

You can avoid taxes on cryptocurrency if you lose money. You can also avoid taxes if you never sell your cryptocurrency and never engage in a financial transaction with any of your bitcoins. Otherwise, the days of hiding assets in the bitcoin realm are coming to an end. While the chief aim of the IRS and FBI has been to track down drug money, money used for terrorism, and other nefarious purposes, the net is being broadly cast and anyone who wants to take a profit or use their bitcoin wealth to live a better life will need to pay their taxes as they go.

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