












Preparation Guidance

&

Crypto Tax Tips

# Table of Contents

-  Number 1- Report Your Crypto Income
-  Number 2- Report All Sales
-  Number 3- Report All Trades
-  Number 4- Report Every Time You Buy Goods and Services
-  Number 5- Hold Coins for Longer Than One Year
-  Number 6- Report All Coins Received from Mining
-  Number 7- Report All Crypto Loans, Margin Trading and Defi
-  Number 8- Harvest Losses
-  Number 9- Consider Contributing Crypto to Charity
-  Number 10- Make Quarterly Estimated Payment Based on Total Estimated Income
-  Number 11- Consider Coin-Tracking to Keep Track of Everything
-  Final Notes

# Introduction to Necessary Documents

Getting started on a complicated project is often the toughest part, so having an expert guide at your side can be just what you need to help motivate and encourage you to take on your taxes. After reading this guide, getting ready to file your taxes won't feel overwhelming. Tackling the first step – gathering your documents – can ensure a smooth start to tax preparation and an overall feeling of assurance that you can become and stay compliant. We'll start with the easy part; forms you will be sent. Next comes information that you will need to locate on your own. Finally, we'll cover special circumstances that affect retired and self-employed expats. If you still have questions once you've reached the end, [our accountants are at the ready to answer them](#). Should you need to give us a call 855-829-5877



# Statements You'll Be Sent

Many of the documents you need to have before you file your crypto taxes will arrive in the mail, some you will have to gather, especially related to your cryptocurrency transactions. **This may prove particularly challenging, especially if you have used multiple exchanges.**

Next you would want to make sure you have all of your W-2s and 1099s. If you don't, the first step is calling your employer or other providers to find out where they are. Depending on where you live, receiving mail may be a slow process. Exception aside, you can expect to receive the following documents that will be crucial to filing your taxes.

1. Form 1099 INT/DIV will be sent to you and will contain all the interest (income the bank paid you for storing your money with them) and dividends (profit shares from a corporation in which you own stock) from that year.
2. Your broker will send a statement with all of the purchases and sales of stock or other securities from the relevant tax year. These numbers will be used to report capital gains and losses on both US and foreign investments. Please note, unless you have transacted all of your crypto activities through one exchange, the report provided is not likely to be accurate. This is because users constantly transfer crypto in and out of several exchanges. These

exchanges have no way of knowing how, when, where, or for what cost basis you originally acquired your cryptocurrency. The best solution to this problem is to use a data aggregator such as Coin Ledger or Coin Tracker

3. If you have a mortgage, your lender should send you a statement with information on mortgage interest paid, which is a tax-deductible expense that you can use to limit your tax liability.

If you are missing a tax document, don't ignore it! Contact the issuer to have it resent. It may have been lost in the mail; though you did not receive it, it still may have been reported to the IRS. If it was reported to the IRS but omitted on your tax return, the IRS could feasibly catch this omission, prompting an audit of your tax return.



# Information You'll Need to Track Down

Where applicable, you'll need to locate the following documents within your files or records.

1. A copy of last year's tax return. Your tax return has information on it that you will need to carry over from one year to the next, and it provides a handy guide to check your numbers against when filling out this year's tax information. For instance, if you used the Foreign Tax Credit last year, you'll need to input that information exactly.
2. A year-end interest statement from your financial institution. If you did not receive a form 1099 for other income, you'll want to request this from the applicable institution.
3. Records of sales or purchases of real estate and any other property; for example, land. You'll need documents from the purchase and the sale that contain information on the date of sale, date of purchase, whether it's for business or personal use, total cost and proceeds, plus information on any improvements made while you owned the property.

- a. A list of every exchange that you have ever used to buy, sell, or trade cryptocurrency. Exchange data is essential in the crypto tax reporting process. Exchanges are likely the places where you originally converted FIAT currency into cryptocurrency, and thus your **cost basis** is originally established here. You should have complete historical data from every exchange that you have used. When importing historical exchange data into crypto tax software, it's important that you include data from EVERY year that you have transacted in crypto--not just the year you are reporting on for tax purposes.
  - b. A record of any Bitcoin or cryptocurrency that you received as income. Cryptocurrency that is received as income is treated differently than crypto trades for tax purposes. It's important that you have records of income events such as mining payouts, crypto received from a job, or any other form of cryptocurrency received as income. You should have a record of the amount of crypto received and the date and time that you received it.
  - c. A record of any crypto received as a gift. Gifts of cryptocurrency are also treated differently for tax purposes. If you received crypto as a gift, you should have a record detailing the amount and the date/time that you received the gift. This data should be entered into crypto tax software to show how you initially acquired the cryptocurrency.
  - d. A record of coins received from forks, splits and air drops. Coins received as splits and forks will show up in your historical exchange data (from item #1). However, because they split or forked from an original chain, it will look like these coins appeared in your account out of thin air. It's important that you have a record of these forks and splits so that you can show when and how you initially received the coins.
4. Records of any miscellaneous income, including income from a business that isn't a sole proprietorship, income you received because you are part owner of a foreign partnership or corporation, or income from gambling,

farming, royalties, unemployment compensation, alimony, or foreign disability income.

5. Rental income documents. If this will be the first year of your rental income, provide the date you placed your rental property in service and the purchase price or value of improvements of your rental property and any other equipment.
6. A list of expenses that includes reasonable expenses paid or incurred for housing in a foreign country. If your tax home is in a foreign country, and you qualify for the Foreign Earned Income Exclusion, a further deduction from your gross income is available for foreign housing expenses.
7. A list of relevant childcare expenses, including the name, address, and ID number (if applicable) of your childcare provider, health insurance and medical expenses summary, and your charitable contribution summary.
8. The name(s) and address(es) of your relevant financial institutions, plus the account number, highest account balance during the year, end of year balance, and joint ownership or signatory authority, if applicable. In order to fulfill your Foreign Bank Account Report (FBAR) reporting requirement, foreign account information reporting may be needed if certain account balance thresholds are met. The threshold is met – meaning you will be subject to FBAR reporting – if you have \$10,000 or more in aggregate in your foreign bank accounts.





# Number 1 Report Your Crypto Income

If you are a US Tax Resident, then you are required to report all worldwide income regardless of the source. Failing to do so could be considered fraud, which is a criminal offense. This requirement to report income includes cryptocurrency. Failure to report your cryptocurrency income could result in interest and penalties in the future.

According to [official IRS guidance](#), Bitcoin and other cryptocurrencies should be treated as property for tax purposes—not as currency. This is true for all cryptocurrencies such as Ethereum, Litecoin, XRP, etc.

This means that crypto must be treated like owning other forms of property such as stocks, gold, or real-estate. Just like you would with trading stocks then, you are required to report your capital gains and losses from your cryptocurrency trades on your taxes. Failing to do so is considered tax fraud in the eyes of the IRS.

Calculating capital gains and losses for your cryptocurrency trades is relatively straightforward, and we walk through the process below. However before doing the calculations, you need to understand taxable events.

## ***Taxable Events for Cryptocurrency***

A taxable event is simply a specific action that triggers a tax reporting liability. In other words, whenever one of these 'taxable events' happens, you trigger a capital gain or capital loss that needs to be reported on your tax return. It's as simple as that. The following have been taken from the [official IRS guidance from 2014](#) as to what is considered a taxable event in the world of crypto. If any of the below scenarios apply to you, you have a tax reporting requirement.

- **Trading cryptocurrency to fiat currency like the US dollar is a taxable event**
- **Trading cryptocurrency to cryptocurrency is a taxable event** (you have to calculate the fair market value in USD at the time of the trade)

- **Using cryptocurrency for goods and services is a taxable event** (again, you have to calculate the fair market value in USD at the time of the trade)
- **Earning cryptocurrency as income is a taxable event** (from mining or other forms of earned cryptocurrency)

*What is Not Considered a Taxable Event?*

- **Giving cryptocurrency as a gift is not a taxable event**
- **A transfer is not a taxable event** (you can transfer crypto between exchanges or wallets without realizing capital gains and losses)
- **Buying cryptocurrency with USD is not a taxable event** (you don't realize gains until you trade, use, or sell your crypto)

Below is an example of the form required to be completed to report cryptocurrency transactions;

**Sales and Other Dispositions of Capital Assets**

► Go to [www.irs.gov/Form8949](http://www.irs.gov/Form8949) for instructions and the latest information.  
► File with your Schedule D to list your transactions for lines 1b, 2, 3, 8b, 9, and 10 of Schedule D.

Name(s) shown on return

Social security number or taxpayer identification number

Before you check Box A, B, or C below, see whether you received any Form(s) 1099-B or substitute statement(s) from your broker. A substitute statement will have the same information as Form 1099-B. Either will show whether your basis (usually your cost) was reported to the IRS by your broker and may even tell you which box to check.

**Part I** **Short-Term.** Transactions involving capital assets you held 1 year or less are generally short-term (see instructions). For long-term transactions, see page 2.

**Note:** You may aggregate all short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the totals directly on Schedule D, line 1a; you aren't required to report these transactions on Form 8949 (see instructions).

**You must check Box A, B, or C below. Check only one box.** If more than one box applies for your short-term transactions, complete a separate Form 8949, page 1, for each applicable box. If you have more short-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

- ☐ (A) Short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see **Note** above)  
☐ (B) Short-term transactions reported on Form(s) 1099-B showing basis **wasn't** reported to the IRS  
☒ (C) Short-term transactions not reported to you on Form 1099-B

1	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold or disposed of (Mo., day, yr.)	(d) Proceeds (sales price) (see instructions)	(e) Cost or other basis. See the <b>Note</b> below and see <i>Column (e)</i> in the separate instructions	Adjustment, if any, to gain or loss. If you enter an amount in column (g), enter a code in column (f). See the separate instructions.		(h) Gain or (loss). Subtract column (e) from column (d) and combine the result with column (g)
						(f) Code(s) from instructions	(g) Amount of adjustment	
	0.21844160 ETH	9/25/2018	1/2/2019	\$32.06	\$49.76			-\$17.69
	0.20829326 ETH	10/5/2018	1/2/2019	\$30.57	\$48.03			-\$17.46
	0.52978794 ETH	11/14/2018	1/2/2019	\$77.76	\$100.00			-\$22.24
	0.59584792 ETH	11/19/2018	1/2/2019	\$87.46	\$100.00			-\$12.54
	0.33639568 ETH	11/23/2018	1/2/2019	\$49.38	\$43.33			\$6.04
	0.35542609 ETH	8/9/2018	1/10/2019	\$47.43	\$133.23			-\$85.80
	0.77152091 ETH	8/11/2018	1/10/2019	\$102.95	\$250.00			-\$147.05
	0.35886446 ETH	8/14/2018	1/10/2019	\$47.88	\$100.00			-\$52.12
	0.35565146 ETH	8/23/2018	1/10/2019	\$47.46	\$100.00			-\$52.54
	0.65137199 ETH	9/6/2018	1/10/2019	\$86.91	\$150.00			-\$63.09
	0.48481850 ETH	9/8/2018	1/10/2019	\$64.69	\$100.00			-\$35.31
	0.27630947 ETH	9/12/2018	1/10/2019	\$36.87	\$50.00			-\$13.13
	0.00107473 ETH	9/25/2018	1/10/2019	\$0.14	\$0.24			-\$0.10
	0.29353763 ETH	6/16/2018	1/18/2019	\$34.33	\$150.00			-\$115.67
<b>2 Totals.</b> Add the amounts in columns (d), (e), (g), and (h) (subtract negative amounts). Enter each total here and include on your Schedule D, <b>line 1b</b> (if <b>Box A</b> above is checked), <b>line 2</b> (if <b>Box B</b> above is checked), or <b>line 3</b> (if <b>Box C</b> above is checked) ►				\$745.90	\$1,374.59			-\$628.69

**Note:** If you checked Box A above but the basis reported to the IRS was incorrect, enter in column (e) the basis as reported to the IRS, and enter an adjustment in column (g) to correct the basis. See *Column (g)* in the separate instructions for how to figure the amount of the adjustment.

**For Paperwork Reduction Act Notice, see your tax return instructions.**

Cat. No. 37768Z

Form **8949** (2019)



## Number 2 Report All Sales

Every time you sell a coin for USD (or other fiat), you create a taxable event that will result in either ordinary income/loss or a capital gain/loss.,

For example:

If you buy BTC for \$100 and then it goes up to \$1,000 and you sell it for USD one year and a day later, you will have a capital gain or \$900

If you sell it in less than a year, you will have ordinary income of \$900



## Number 3 Report All Trades

Like stock, if you trade one coin for another, you create a taxable event that will result in either ordinary income/loss or a capital gain/loss.

.

Even though you do not receive cash when you trade one coin for another, you receive something of value (the new coin), and the value that was either created or lost from the trade must be reported.

For example:

If you buy BTC for \$100 and then it goes up to \$500 and then you trade it for ETH, you will report a \$400 gain, if held greater than one year.

If you sell it in less than a year, you will have ordinary income of \$400



## Number 4 Report Every Time You Buy Goods/Services

If you use crypto to purchase goods and services another, you create a taxable event that will result in either ordinary income/loss or a capital gain/loss.

This is because you are receiving something of value in exchange for the crypto and the value of those goods or services may be higher or lower than what you originally purchased the coin for.

For example:

If you buy BTC for \$100 and then it goes up to \$20,000 and then you trade it for a new car, you will report a \$19,000 gain, if held greater than one year.

If you buy the car with the crypto in less than a year, you will have ordinary income of \$19,900



## Number 5 Hold Coins for Longer Than One Year

If you hold your coins for more than one year before selling, trading or using them to purchase goods or services, your gains will be treated as long-term capital gains and will be taxed at a top rate of 20%.

If you hold your coins for less than one year before selling, trading or using them to purchase goods or services, your gains will be treated as short-term capital gains or ordinary income and will be taxed at a top rate of 37%.



# Number 6 Report All Coins Received from Mining

If you receive coins from mining, you are required to report the USD value of each coin on the day that it was successfully mined, as income on your tax return

If you mine cryptocurrency, you will incur two separate taxable events. The first is as income from the USD value of the coins you mined, and the second is the capital gain or loss you incur when you sell or trade your mined coins.

You report this income differently depending on whether or not you mined the crypto as a hobby or as a business entity.

This same treatment is used for coins received from master-nodes and staking.





# Number 7

## Report All Crypto Loans, Margin Trading and DeFi

Cryptocurrency lending platforms and other DeFi services have exploded in popularity within the crypto landscape. Receiving interest income from a crypto loan or similar service is treated as a form of taxable income—similar to mining or staking rewards.

This type of income should be reported under the “other income” section of line 21 of Schedule 1 — Additional Income and Adjustments to Income — as part of your income tax return.

Any cryptocurrency that you have not expressly bought may be deemed as Income and be subject to income tax. This includes income earned from the interest on your cryptocurrency deposits/collateral. Receiving interest in crypto is treated similar to mining cryptocurrency and is recognized based upon the associated USD fair value of the cryptocurrency interest when received.

Because cryptocurrency prices fluctuate dramatically, many miners, stakers, masternode operators, and cryptocurrency loan holders use cryptocurrency tax software like [CryptoTrader.Tax](#) to import all of their cryptocurrency income that they have received over the course of the tax year. CryptoTrader.Tax will automatically retrieve all historical USD prices and keep track of your cost basis across all of your crypto holdings.

### **Borrowing fiat against your cryptocurrency**

Taking out a fiat loan or borrowing against your crypto assets is not considered a sale, and thus is not a taxable event. This means that you don't pay capital gains taxes on the fiat you get from your crypto loan. Because of this, many long-term cryptocurrency holders use crypto loans to gain access to US dollars and avoid paying capital gains taxes on their crypto gains. Keep in mind, you

will still be paying interest on this loan, but for many investors, the interest on their loans will be less than paying capital gains taxes.

### **Are my loan interest payments tax deductible?**

The IRS has yet to issue specific guidance surrounding interest payments in crypto lending. However, you can get a better idea for how they may be treated by looking at traditional lending. To understand whether your interest payments are tax-deductible, it is necessary to consider whether a loan is used for personal, investment, or business-related purposes.

If a business takes out a loan for a commercial purpose, the interest is treated as a legitimate tax-deductible business expense.

If a loan is taken out for personal reasons, interest expense is usually not considered tax-deductible. However, if an individual borrows money to purchase a piece of real estate that will produce investment income, the interest they pay on their loan may be considered investment interest expense, which may be tax-deductible.

### **What are the tax implications if a platform sells my collateral, such as during a margin call?**

It's important to note that many crypto-backed loan agreements include a liquidation clause should the value of the collateral fall below a specific value. During a margin call, borrowers can choose to either deposit additional collateral or pay down their principal to re-adjust their loan-to-value ratio to appropriate levels.

In the case of a liquidation event, the liquidation of cryptocurrency collateral will be treated as a sale and will thus incur capital gains tax.

## **The Tax Implications of Margin Trading**

### **What is margin trading?**

Margin trading involves borrowing money from a cryptocurrency exchange to open a long or a short position. Once the price begins moving, you can opt to close your position and realize any gains. The difference between the opening and closing price will be your profit or loss.

## **Long vs. short positions**

A long position is opened when you believe the price of a cryptocurrency will go up. For example, if you believe the price of BTC will go up, you borrow USD from an exchange like Kraken, use it to buy BTC and wait for the price to go up. Once the price goes up, you'd sell the BTC for USD, return whatever USD you originally borrowed, and pocket the difference.

A short position is the exact opposite and is opened if you believe the price of an asset will go down. For example, if you believe the BTC price will go down, you'd borrow BTC from the exchange and immediately sell it for its current price of USD. Once the price of BTC has dropped, you'd simply buy back the same amount of BTC that you borrowed for this new cheaper price. You'd then return that amount of BTC to the exchange and pocket the difference.

## **How do taxes work with margin trading?**

From a tax perspective, margin trading with crypto is treated like taking out a loan from a bank to invest in property. Simply taking out the loan itself is not a taxable event. However, when you incur gains/losses when selling the property that you used money from the loan to purchase, you incur a taxable event. For margin trades, the 'selling' happens when you close a position. Any gains/losses made at that point will be realized capital gains/losses and declared in the same way as regular trades, on Form 8949.

If you paid interest on your margin trades, you can claim it as an itemized deduction. If the interest was paid using a cryptocurrency, it will also be subject to capital gains.



# Number 8

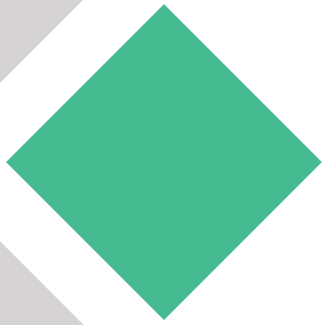
## Harvest Losses

Loss harvesting means that you are actively selling coins that are currently being held at a loss position to offset any gains.

For example:

In 2019, halfway through the year, you have \$100,000 of gains, but you are also holding BTC that you bought for \$15,000 on August 2018 and is now worth \$5,000. You would purposely and with specific identification, sell the BTC purchased on August 2018, generating a loss of \$10,000. This would bring your over gain/loss to \$90,000. You would continue to harvest any losses up to the amount of gain plus \$3000.

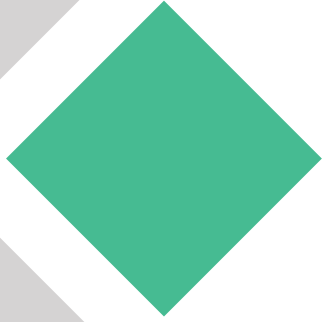
Note: You can rebuy BTC for \$5000 and start a new holding period.



## Number 9 Contribute Your Crypto to Charity

If you donate your appreciated coins to a registered 501(c)(3) charitable organization, you can deduct the fair market value of the contribution on your tax return and completely avoid the taxes on the gains.

Note: You will be limited in this type of contributions to 30% of your Adjusted Gross Income

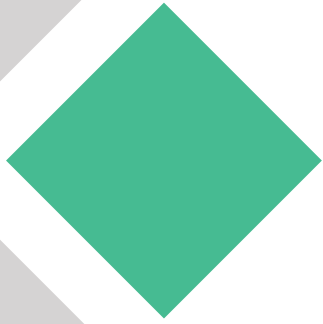


# Number 10

## Make Quarterly Tax Estimated Payments

If you expect to owe more than \$1,000 with your return, you must make estimated payment to avoid the underpayment penalties.

The only way to avoid this penalty is to have paid 90% of your current year's tax liability (110%, if you make over \$150,000) by the end of the current year.



# Number 11

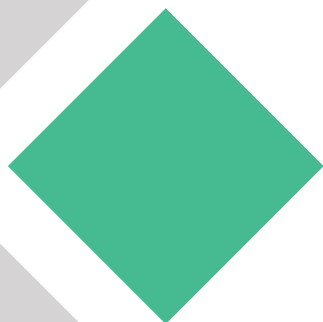
## Use Coin-Tracking to Keep Track of Everything

Because crypto exchanges will not issue 1099-Bs, you are responsible for track of tracking your cost basis, sales proceeds and holding periods of your transactions.

This can be an overwhelming task without using a program like Coin-Tracking. Using this program or a comparable program will keep track of everything.

Go to [CryptoTax-CPA.com/cointracking](https://CryptoTax-CPA.com/cointracking) to get a 10% discount

# Final Notes



Cryptocurrency taxes are more complicated than most, and the penalties they carry can be stiff. If you're interested in having your Crypto taxes completed by the experts, contact Legacy today! Our accountants have up-to-the-minute crypto tax expertise, and the Legacy Tax Companion (the super-savvy online tax platform) saves your information year over year so you only have to input it once. That means that next year, you won't spend time searching through so many forms. Contact Legacy today, and you'll find your crypto tax prep has never been simpler

Let's set up an initial complimentary phone consultation to discuss your cryptocurrency taxation needs, click below

<https://calendly.com/taxman/cryptocurrency-taxation-initial-discussion>

## **Legal and Earnings Disclaimer**

The tax laws are constantly in a state of flux. This material has been prepared for informational purposes only, and is not intended to provide, and should not be relied on for, tax, legal or accounting advice. No portion of this material is intended to offer professional legal, medical, personal or financial advice. The information contained herein cannot replace or substitute for the services of trained professionals in any field, including, but not limited to, financial or legal matters. Under no circumstances will Stephan H. Brewer or Legacy Tax & Resolution Services, LLC or any of its representatives or contractors be liable for any special or consequential damages that result from the use of, or the inability to use, the information or strategies communicated through these materials or any services provided prior to or following the receipt of these materials, even if advised of the possibility of such damages. You alone are responsible and accountable for your decisions, actions and results in life, and by your use of these materials, you agree not to attempt to hold us liable for any such decisions, actions or results, at any time, under any circumstances.