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IRS Announces Plans to Contact 10,000 Virtual Currency Owners about Tax Compliance

Taxpayers who own virtual currency should be prepared to respond to IRS inquiries regarding their virtual currency holdings and, if necessary, substantiate their reporting of these investments on their federal tax returns.

On July 26, 2019, the Internal Revenue Service (“IRS”) announced that it was in the process of contacting 10,000 taxpayers about the need to accurately report virtual currency on their tax returns. The IRS stated the letters are “educational” in nature and provide information about how to correct past reporting errors. The announcement quoted IRS Commissioner Chuck Rettig as saying that “[t]axpayers 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 proper reporting of virtual currency on tax returns has been an ongoing focus of the IRS. Notably, in July 2018, the IRS announced a compliance campaign for taxpayers who fail to accurately report virtual currency. A compliance campaign is an issue-based examination meaning that the IRS conducts a narrow review of the tax returns focusing solely on one issue—in this case, unreported gains from the sale of virtual currency.

Further, in November 2016, the Justice Department successfully petitioned a court in San Francisco for a John Doe summons issued against Coinbase, a virtual currency exchanger. A John Doe summons requires a company to identify all of its account holders to the IRS who meet certain criteria. In this case, Coinbase identified account holders who conducted transactions in a virtual currency during the years 2013 to 2015. It has been widely reported that Coinbase identified thousands of U.S. persons who maintained “wallets” with Coinbase to hold their virtual currency in response to this court order. These wallets would reveal the time, date, and amount of each virtual currency trade by the account holder.

Individuals who have purchased or sold virtual currency since January 2013 should review their tax returns to ensure that these transactions were reported correctly. As explained in a prior IRS notice, virtual currency is taxed like property.

However, as a result of the 2017 Tax Cut and Jobs Act, virtual currency is not subject to the rules pertaining to like kind exchanges. Thus, effective for tax year 2018, trading one type of virtual currency for another likely triggers a taxable event.

Individuals may wish to proactively prepare “examination files” so that they can answer the IRS’s questions. Individuals who believe that they did not fully or accurately report all of their virtual currency transactions should consult an attorney. There are a variety of options available to individuals who need to amend their tax returns including entering the IRS voluntary disclosure program, which provides an assurance against criminal prosecution if all civil tax obligations are satisfied.

A copy of the IRS’s July 26, 2019 announcement can be found [here](#).

A copy of the IRS July 2, 2018 Compliance Campaign announcement can be found [here](#).

A copy of the DOJ Tax Press Release announcing the Court order granting the John Doe summons can be found [here](#).

A copy of the IRS guidance on reporting virtual currency transactions can be found [here](#).

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