FOUR THINGS TO KNOW ABOUT TAX AND CRYPTOCURRENCY

Cryptocurrency has been one of the most exciting investments in the past couple of years. The IRS has been following up with the trend and updating the guidance on the tax treatment of cryptocurrency. Here are four essential points to know before filing your tax.

Ownership
According to the IRS, when a taxpayer owns, controls, and is in possession of a private key for a virtual currency wallet, they have 100% custody and control over all of the virtual currencies held in that wallet. If the taxpayer loses the private key, they lose all of their funds. This concept is akin to the taxpayer holding cash, gold, or any other asset in their personal possession. When the taxpayer owns, controls, and is in possession of the private key, the virtual currency resides in the country of the taxpayer's residence.

How are cryptocurrency transactions taxed?
Cryptocurrency is determined as a capital asset, similar to the tax treatment of the stock; buying and selling the cryptocurrencies might trigger capital gain or loss. The cost basis (original purchase price), sales price, and holding period will all affect the capital gain calculation. Additionally, since cryptocurrency is a kind of property, taxpayers need to report income if they receive the cryptocurrencies as service compensation.

FBAR filing requirement
The cryptocurrency accounts were not reportable on the Form 114, Report of Foreign Bank and Financial Account. But for the taxpayer who holds virtual currencies and/or fiat currencies on centralized virtual currency exchanges operating in a jurisdiction other than the U.S., the value of virtual currencies should aggregate with fiat currencies and any other assets required for reporting under both FBAR and FATCA if their respective reporting thresholds are met.

Self-directed retirement choice
The cryptocurrency can be purchased in many types of retirement accounts, especially self-directed ones. As with many other asset classes, the risk and reward are high. We encourage our clients to put a tiny portion in their portfolio, say 1% - 2%. If all is busted, your retirement is not impacted by much. However, if it performs, it could provide multiple layers of benefits for tax planning.

Last but not least, if you are thinking about investing in cryptocurrency, please consult with your financial adviser, accountant, and/or attorney before making any decision. After all, all cryptocurrencies, just like many other investments, investors could lose all their money. For me, I have two BTC, and I intend to hold them for a long long time- one for my daughter (age 8) and one for my son (age 6).

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