LEGISLATIVE UPDATE

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New IRS Cryptocurrency Reporting Requirements in 2023

The Infrastructure Investment and Jobs Act that was signed into law in late 2021 includes new definitions and tax reporting requirements for cryptocurrency.

An Overview of the Changes

Under existing broker reporting rules, if you have a stock brokerage account, whenever you sell stock or other securities, you will receive a Form 1099-B at the end of the year that includes transaction details such as sale proceeds, relevant dates, your tax basis for the sale, and the character of gains or losses.

Furthermore, under existing "broker-to-broker" reporting rules, if securities are transferred from one broker to another broker, then the old broker must furnish a statement with relevant information, such as tax basis, to the new broker.

The legislation enacted in 2021 extends these broker information reporting rules to:

- cryptocurrency exchanges, custodians, or platforms (e.g., Coinbase, Gemini, or Binance)
- digital assets, such as cryptocurrency (e.g., Bitcoin, Ether, or Dogecoin)

It also extends existing cash reporting rules to cryptocurrency, so that businesses that accept payments of $10,000 or more in cryptocurrency will have to report that to the IRS. Thus, any platform on which you can buy and sell cryptocurrency will have to report digital asset transactions to the IRS and to you at the end of each year.

The new tax reporting requirements for cryptocurrency apply to transactions that take place beginning in 2023.

These provisions increase transparency to afford both U.S. regulators and the IRS a clearer view into the digital activities of participants in the digital ecosystem, both onshore and offshore.

What You Should Know

There are three key takeaways to be aware of regarding the new IRS reporting requirements for cryptocurrency:

- If you use a cryptocurrency exchange or platform, and it has not already collected a Form W-9 from you (seeking your taxpayer identification number), expect it to do so.
- Cryptocurrency exchanges or platforms will need to begin tracking the holding period and the buy and sell prices of the digital assets in customers’ accounts.

- The transactions subject to the new reporting rules will include not only the selling of cryptocurrencies for fiat currencies (government-issued currency such as the U.S. dollar), but also exchanges of cryptocurrencies for other cryptocurrencies.

Non-Compliance Penalties

The cryptocurrency exchanges or platforms will probably not have all the information they need to meet their reporting requirements under the new rules, which may make the first year of reporting for digital assets challenging for investors, as well as for exchanges and platforms.

Despite these potential difficulties in collecting the required transactional information, failing to comply with these new tax regulations comes with heavy fines. Civil penalties can go as high as $3 million a year, and those found guilty of intentional failure to comply can face even higher fines and jail time of up to five years.

Questions about the IRS and Cryptocurrency?

Reach out to your Seiler tax advisor at 888.454.4646 for assistance in navigating these new requirements so that you're fully prepared when the changes go into effect.