

Privacy Tip #203 - Cryptocurrency Woes

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As cryptocurrency becomes more popular with investors, CipherTrace recently issued its Q2 2019 Cryptocurrency Anti-Money Laundering Report, which finds that “[O]utright thefts as well as scams and other misappropriation of funds from cryptocurrency users and exchanges continued apace, netting criminals and fraudsters approximately \$4.26 billion in aggregate for 2019.” Yikes—that’s billion with a “b”.

The report (ciphertrace.com) states that insider threats caused the largest losses, as well as a large Ponzi scheme, which defrauded “millions of users out of \$2.9 billion in crypto assets.”

That’s the first cryptocurrency woe—if you are an investor in cryptocurrency, you are being targeted and are at risk of theft.

The second is that the Internal Revenue Service (IRS) appears to be concentrating on cryptocurrency investments and has sent a warning letter to 10,000 cryptocurrency traders alerting them that the IRS may be changing its methods for calculating the value of cryptocurrency and the forms and schedules that are used to report those holdings.

The IRS issued its first guidance on cryptocurrency in 2014, which announced that cryptocurrency is property that is subject to taxation. Yes, taxes must be paid on cryptocurrency just like any other investment. The recent letters ask the traders to verify whether they filed their taxes on their cryptocurrency gains or losses correctly

and to amend their tax forms if they think they might have made a mistake. The IRS suggested that traders should look at the exact date and time that they conducted a transaction and report accordingly.

As you know, I love speaking at the IRS Tax Preparers National Conference, but I really don't want to be on the IRS' radar screen. It's not a good idea to have the IRS sending you a letter or asking you about your cryptocurrency gains and losses. If you have received one, or are a cryptocurrency investor, take heed of the IRS letters, as they provide guidance as we await the final cryptocurrency guidance to update the 2014 guidance that has been promised by the IRS in recent months.

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