CRYPTOCURRENCY: FBAR Reporting
Agenda

• What is cryptocurrency?
• IRS Treatment
• FBAR Filing Requirement
• Questions
• It is an algorithm and distributed data structure for managing electronic cash and contracts in a decentralized fashion.
• It is a public system protected by secured keys.
• All transactions are verified by computers with complex math problem solving capabilities which confirm and verify its accuracy and privacy.
Mainstream Cryptocurrency: Bitcoin, Blockchain, etc.

- The debits and credits activity is represented in blocks, and the chains are the beginning and ending balances.
- Each block specifies encrypted transactions, while computers work as a community to safeguard the data to avoid tampering.
- Once the computers form a decision, the block becomes “chained” and the next block begins.
Tax Rules for Cryptocurrency
Tax Rules

• Mining virtual currencies qualifies as a taxable event.
  – It is treated as property under the federal tax guidelines.
• Reporting:
  – Payments using virtual currency made to independent contractors and other service providers are taxable, and self-employment tax rules generally apply. Normally, payers must issue Form 1099-MISC.
Tax Rules

- Wages paid to employees using virtual currency are taxable to the employee, must be reported by an employer on a Form W-2.
- Certain third parties who settle payments made in virtual currency on behalf of merchants that accept virtual currency from their customers are required to report payments to those merchants on Form 1099-K, Payment Card and Third Party Network Transactions.
- The character of gain or loss from the sale or exchange of virtual currency depends on whether the virtual currency is a capital asset in the hands of the taxpayer.
Report of Foreign Bank and Financial Accounts (FBAR)
Who Must File the FBAR?

- A United States person that has a financial interest in or signature authority over foreign financial accounts must file an FBAR if the aggregate value of the foreign financial accounts exceeds $10,000 at any time during the calendar year.

The maximum value of the accounts maintained must all be reported.

- Example: If the balance in Account A is $4,500 and Account B is $5,500, the aggregate of $10,000 must be reported at fair market value.
Reporting and Filing:
- The information is required to be disclosed by e-filing the FBAR, FinCEN Form 114.
- As of 2018 the FBAR is due October 15th.
Overseas Cryptocurrency and the FBAR
Overseas Cryptocurrency

- As of today, the Financial Crimes Enforcement Network (FinCEN) has not issued guidance on whether cryptocurrencies are considered a reportable financial account.
- Filing an FBAR is an individual decision and based on the filer’s risk tolerance.
- There is no tax burden for filing and FinCEN reserves the right in the future to penalize
Overseas Cryptocurrency

• Does the cryptocurrency outside of the U.S. have an account number, provide periodic balances, and allow you access to the funds?
  • If yes, this is similar to a bank and/or investment account which is reportable for FBAR purposes.
• Computer storage - Personal Wallet:
  • Not reportable since it is not held with a financial institution.
• Form 8938 Reporting:
  • Similar to the FBAR
  • The IRS has not issued guidance on whether it is reportable on Form 8938.
Let's Connect

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