

Kram, McCarthy, Ayers & Frost, LLC
1704 Main Street
P.O. Box 426
Chester, Maryland 21619
410-643-4477

DATE: December 2, 2019

RE: VIRTUAL CURRENCY

With the rapid fluctuation in value of virtual currencies and the ability to trade Bitcoin futures, the IRS is placing special scrutiny on these transactions.

For example, the IRS has begun a letter campaign to taxpayers with known virtual currency holdings who may not have properly reported the transactions. The letters are: Letter 6174-A, Letter 6174, and Letter 6173. Let us know **IMMEDIATELY** if you received one of these letters.

In general, here are some things to keep in mind:

- The IRS has determined that virtual currency is treated as property, not currency;
- For taxpayers who have held a virtual currency for more than a year, the gain will qualify for capital gains rates. Conversely, those with capital losses are subject to the \$3,000 capital loss limitation;
- Wages paid to employees and payments made to independent contractors using virtual currency are taxable to the employee/worker;
- Taxpayers who “mine” the virtual currency must include in gross income the fair market value of the currency on the date it is mined. If the taxpayer is in the trade or business of mining currency and is not considered an employee, then the “mining” income is subject to self-employment taxes; and
- Taxpayers who receive virtual currency through an “airdrop” must include the value of the currency received in their income on the date of the airdrop.

Please advise us whether you have mined, bought, sold, sent, or received any virtual currencies in the last few years. This includes spending virtual currency to make a purchase, because this can trigger a reportable gain or loss. Every time virtual currency is used for a purchase you must compute the gain based on the transaction.

We want to make sure these transactions are correctly tracked and reported. Please do not hesitate to contact us with any questions.

Please call our office if you have any questions @ 410-643-4477 or email us at taxdept@krammccarthy.com

Sincerely,

Kram Mc Carthy Ayers & Frost LLC