US Tax Guide

Fyn presents this guide, addressing US tax issues and concerns common to many in the crypto space. While perusing this guide, please bear in mind that all content on fynhq.com is obtained from, or is based on, sources that we believe to be accurate and reliable. Although reasonable care has been taken in gathering the necessary information, we cannot guarantee the accuracy or completeness of any information we publish, and we accept no liability for any errors or omissions. You should always carry out your own independent verification of facts and data prior to making any investment, legal or tax decisions. Please consult your tax advisor for guidance specific to your own tax circumstances.

Why do I owe tax on crypto?
Because the IRS treats cryptocurrency as property - and general tax principles applicable to property transactions apply to crypto transactions.

When must I pay tax?
You have to pay tax when a taxable event occurs. Taxable events can result in capital gains tax or taxation of ordinary income.

How do I know if I have to pay capital gains tax? Or incur more tax on ordinary income?
Generally, if you hold the asset for more than one year before you dispose of it, your capital gain is long-term and will be taxed at capital gains tax rates. If you hold the asset for one year or less, your capital gain or loss is short-term. Net short-term capital gains are subject to taxation as ordinary income.

Ok…so I have to pay tax. What are taxable events then?
Taxable events are events or transactions that trigger a tax consequence. A taxable event often results in taxes owed (e.g. generated income or gains), but some taxable events can also reduce your tax bill (e.g. losses).

So when do I incur capital gains (or losses)?
If you have held crypto as an investment for over 12 months, then you will incur capital gain or loss, for example, when you:

- Sell crypto for fiat
- Give more than $16,000 worth of crypto as a gift
- Spend crypto on goods or services
- Swap or trade one digital asset (including NFTs) for another

If you have only held the crypto for less than 12 months, then any gain or loss would be short term and taxed at the same rate as your ordinary income.

And what events are taxable as ordinary income in my return?
The following scenarios can produce ordinary income to be reported in your return:

- Airdrops
- Interest paid in crypto on defi loans
- Income from crypto mining
- Crypto earned from liquidity pools and interest bearing accounts
- Receiving crypto as a payment for services rendered
- Hardforks

What about staking? Where do I report that?

Staking is a gray area in US taxation currently. Those in receipt of staking income tend to report it as mining income. However, there is a case against the IRS stating that staking rewards should only be taxed when sold, not when earned.

Do I need to pay tax when I transfer crypto between exchanges or wallets?

Transferring cryptocurrency between exchanges and/or digital wallets is not considered to be a taxable event, as long as you maintain ownership of it. If the transfer fee was paid using crypto, then that fee is a disposal of cryptocurrency and is considered to be a taxable event. You would need to determine the capital gain or loss attributable to the crypto that was used to pay the fee, using its value at the time the fee was paid.

What about losses?

Losses on an investment are first used to offset capital gains of the same type - so short term losses offset short term gains - and the same for assets held long term. Net losses of either type can then be deducted from the other kind of gain.

If you have an overall net capital loss for the year, up to $3,000 of that loss can be deducted against other kinds of income, including salary and interest income. Then any excess net capital loss that cannot be used in the current tax year can be carried over to subsequent years, to be deducted from capital gains and against up to $3,000 of other kinds of income.

How do I report gains and losses?

For Federal Taxes, report most sales and other capital transactions and calculate capital gain or loss on Form 8949. Tax filers must also summarize capital gains and deductible capital losses on Schedule D of Form 1040.

For state taxes, please consult your tax advisor for specific information.

Does the IRS know about my crypto?

Most likely, yes. And soon, the answer will be definitely yes - they know about your crypto.

How so? Well, before we even get into that, please be aware that the US tax system relies on voluntary compliance - which means that the Internal Revenue Code requires US taxpayers to report in their tax return all taxable transactions, regardless of whether those transactions have been otherwise reported to the IRS or not. If the IRS catches you underreporting, you can expect hefty penalties.

Now, how might the IRS already know about your crypto transactions? Well, there are few ways they likely already know about them.

1 - If you received a 1099-B and 1099-K from your crypto exchange, then the IRS knows about your crypto transactions.

2 - Your exchange may be subpoenaed to disclose their user accounts.

3 - The IRS may send you a letter inquiring about any crypto transactions you may have engaged in. If you don't respond promptly to the letter, you risk having your entire tax profile examined by the IRS.

In addition, blockchain companies are working on technology that will aid in identifying non-compliant taxpayers.

In a nutshell, report your crypto transactions in your tax return.