Crypto Taxation

Torres
CPA Group

(787) 752 4545
info@torrescpa.com
cpatorres@torrescpa.com

www.torrescpa.com
P.O Box 4846, Carolina,
PR 00984-4846

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Puerto Rico Tax Incentive Act 20 and Act 22 reduces the taxation of the crypto industry by granting tax free capital gains and a reduces to 4% tax on ordinary income of Mining and other related services. Act 20 offers a 4% tax rate of the net income of all services provided by a Puerto Rico entity to entities outside of Puerto Rico, in the BitCoin industries this could be the revenues as mining and block chain services. In addition the Capital gain of crypto transactions could be 100% tax free under the Act 22 grant. To get more information on these Tax Incentives go to our web page at torrescpa.com, white paper section, Tax Incentive, web address.

Recent price swings have attracted interest among retail investors and definitely, the IRS's in BitCoin. In fact, the IRS has sued and won to obtain from one of the largest third-party exchanges, Coinbase, for customer information to find underreported income.

Digital currency owners are obliged to pay taxes when they exchange it for dollars or physical goods, and the new rule under the US Tax Reform, now effectively means all crypto transactions are a taxable event.

Until now, some investors have relied on the law to exchange one digital currency for another without paying taxes. With the 2017 US Tax Reform the “in kind” exemption can now only apply to real estate transactions, effectively closing a loophole that has been open to another sort of property transaction such as those involving Bitcoin.

Despite its enforcement measures in this area, the IRS has not provided comprehensive guidance for tax reporting of virtual currency trading. It did offer some general advice in March 2014 in Notice 2014-21.

IRS GUIDANCE

On March 25, the IRS issued Notice 2014-21 regarding "the tax consequences of virtual currencies," including bitcoins. According to the notice, treats currencies as property tax purposes, for which taxpayers generally should apply tax principles of property transactions.

TAX CHARACTERIZATION

According to the notice, stocks and virtual currencies are taxed the same when held as capital assets by the taxpayer. Virtual currencies are characterized as property rather than as currency for tax purposes.

Taxpayers must recognize a gain or loss when the virtual currency in exchange for other property, in the amount of the difference between the fair market value (FMV) of the property received and the taxpayer's basis in the virtual currency. The character of the gain or loss depends on whether the virtual currency is a capital or ordinary asset in the hands of the taxpayer.

TAX TREATMENT

Ordinary Income

Puerto Rico Act 20 Tax Incentives could a 4% tax rate on net of ordinary income.

Taxpayers who receive virtual currency in exchange for goods and services are required to include in gross income the FMV of the virtual currency, measured in U.S. dollars, as of the date that the virtual currency was received.

Virtual currencies received in exchange for salary, services or goods are considered ordinary income and may be subject to self-employment taxes.

Miners - Ordinary Income

Miners use computer arrays to solve complicated algorithms to validate and record virtual currency transactions in "blocks" on a public ledger known as "blockchain," which time-stamps and contains every deal.

Taxpayers who mine bitcoins or other virtual currency have to include in there gross income the equal to the FMV of the virtual currency on the date of receipt.

Mining constitutes a trade or business activity of the taxpayer, the net earnings is considered ordinary income and may be subject to self- employment tax.

Sales or exchanges- Capital Gains

Puerto Rico Act 22 Tax Incentives could grant tax free capital gains.

The character of gains and losses depends on whether the virtual currency is a capital asset in the taxpayer's hands. Therefore, if virtual currency is for investment, its disposal generates a taxable capital gain or deductible capital loss.

For example, a U.S. investor opens an account, funds it with U.S. dollars, and, in a transaction entered into for profit activities, purchases virtual currency held in a virtual wallet (a software application for carrying, storing, and transferring virtual currency). To exit the position, the investor sells the virtual currency for cash or exchanges it for another virtual currency, producing a taxable capital gain or a deductible capital loss.

Exchange for another Virtual Currency

Rather than converting virtual currency into dollars, their holders may exchange them for other virtual currencies. Per the IRS notice, the taxpayer needs to recognize a gain or loss for the virtual currency in exchange for another virtual currency.

Place of Taxability

Capital gain as subject to tax in the place of residence of the holder.

Cost Basis Rules

Under the 2017 US Tax Reform, the cost-basis rules apply to all sales. Therefore virtual currencies are required to use the method of first in, first out to match purchases and sales

Individual for personal activities

If held by an individual for personal use, its disposal produces a taxable capital gain or a nondeductible (unless by casualty or theft) capital loss. However, if a taxpayer uses a virtual currency account solely for personal purchases (e.g., a pay-per-view movie rental, TV set, etc.), the virtual currency is personal-use property, which can result in a nondeductible capital loss.

Reporting and Withholdings Requirements

Taxpayers using virtual currencies to make payments are subject to the same information reporting and withholdings requirements as for any other form of payment. Therefore, employers paying wages in the form of virtual currency must appropriately report the value of the virtual currency at the time of payment on Form W-2. Furthermore, taxpayers using bitcoins to pay independent contractors and making other payments are subject to the US Form 1099 or PR 480 reporting requirements.

Payors making reportable payments using virtual currency must solicit a taxpayer identification number (TIN) from the payee. The payor must withhold from the payment as any other payment subject to withholding.