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Virtual Currency

Dear Client,

With the rapid fluctuation in the 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, 6174 and 6713. Let us know if you have received any of these letters.

In general, here are some things to keep in mind when it comes to virtual currency:

- The IRS has determined that virtual currency is treated as property, not currency;
- For taxpayers who have held 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 it in gross income as 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;
- 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.
- The IRS has brought to our attention Notice 020-2 under CFR 1010.350 that says any amount of virtual currency over \$10,000 needs to have an FBAR FinCEN 114 filed for that tax year (along with the possibility of Forms 8938, 3520, 5471) *this has not been passed yet, but we wanted to bring to everyone’s attention*

You understand that virtual currency tax law is in its infancy. Ellis Lee Hostetter & Co., P.C. assumes no liability for tax, penalties or interest that occur as a result of changes to. Or clarification of, virtual currency taxation. You also understand that you are responsible for providing correct information with regard to your virtual currency income, fair market values, sale information, basis documentation, and any other information required to correctly prepare your tax return.

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