

## When Dealing in Bitcoin, Consider the Tax Implications

By Denny Murphy, CPA



Earlier this month, bitcoin, the worldwide cryptocurrency and digital payment system, surpassed \$4,400 per coin, reaching a new all-time high. You may have heard the term bitcoin in the news over the past few years, but what exactly is it?

Bitcoin is a digital asset used for secure and instant transfer of value anywhere in the world. It is not controlled or issued by any bank or government; rather, it is an open network which is managed by its users. Many in the bitcoin community feel that this is a way to greatly improve and reduce costs of current payment methods by reducing fees and allowing users to send payments anywhere in the world instantly. As bitcoin gains more momentum, the investment community has taken notice, and so has the IRS.

On March 25, 2014 the IRS issued guidance (IRS Notice 2014-21) labeling bitcoin "intangible property." Investors who hold bitcoin as a capital asset should use capital gain or loss tax treatment when they sell or exchange bitcoin using the realization method.

If you are utilizing bitcoin, or if think you might do so in the future, there are tax issues you should consider.

### **Long-Term vs. Short-Term Gains**

Short-term capital gains are taxed at ordinary income tax rates, while long-term gains are taxed at a lower rate, based on an individual's marginal income tax bracket.

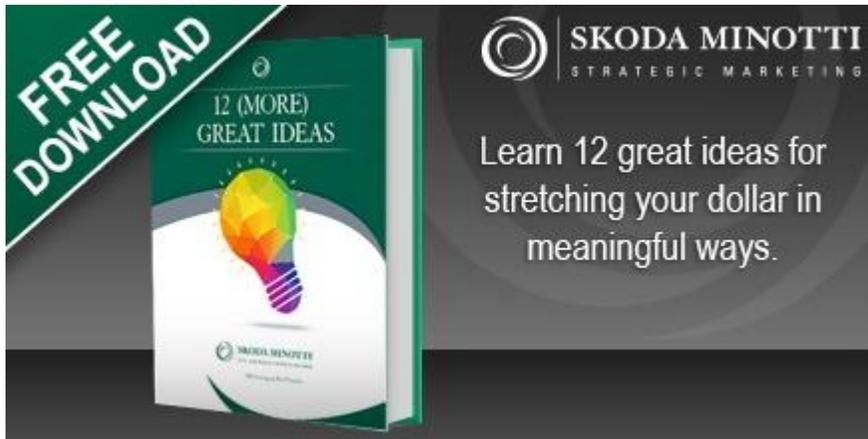
If you are in the...	your long-term capital gains rate will be...
10%-15% tax bracket	0%
25%-35% tax bracket	15%
39.6% tax bracket	20%

It should also be noted that taxpayers whose adjusted gross income is in excess of \$200,000 (i.e., single filers) or \$250,000 (i.e., joint filers) may be subject to an additional 3.8% tax as a net investment income tax.

### **Rules for Capital Losses**

Capital losses may be used to offset capital gains. If the losses exceed the gains, up to \$3,000 of those losses may be used to offset the taxes on other kinds of income. Should you have more than \$3,000 in such capital losses, you may be able to carry the losses forward. You can continue to carry forward these losses until such time that future realized gains exhaust them. Under current law, the ability to carry these losses forward is lost only on death.

For more information on [tax planning](#) relative to bitcoin, or other tax issues, contact Denny Murphy or Nick Ward at 440-449-6800 or email [Denny](#) or [Nick](#).



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