

# Do Your Clients Have Unreported Bitcoin Gains?

By [Danielle Andrus](#) AUGUST 9, 2017

The IRS isn't going to ignore property gains just because they only exist online



“Obviously, the people who first got into digital currency were not all that interested in living in the system. Those people aren't going to pay taxes, no matter what,” according to Perry Woodin, founder of Node40.

For the rest of us, not reporting gains from digital currencies is more likely a result of not knowing how to get started.

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More traditional investors “who are used to paying taxes on their investments started looking at, ‘well, how do I pay my tax liability?’ It was nearly impossible to figure out,” Woodin said.

The Internal Revenue Service released guidance in 2014 that states [virtual currency is treated as property](#) for tax purposes. Investors who receive digital currency must report the gain in their gross income based on the fair market value of the currency at the time it was received.

Digital currency miners who receive the currency as compensation for their work may also be subject to self-employment tax.

Forbes reported in March that just over 800 investors reported bitcoin gains in 2015, while Woodin says Bitcoin users number in the “tens of millions.”

Coinbase is a digital wallet platform with over 9 million users of its own who hold Bitcoin, Ethereum and Litecoin. In March, the IRS sued Coinbase to get customer records and look for unreported income. The agency later [narrowed the types of information](#) it wanted to see, our sister publication *The Recorder* reported in June.

Woodin said that before some of his customers were trying to use spreadsheets to track their gains from digital currencies.

“Even that is cumbersome and can create a real headache because of the technical way these transactions are created. They couldn’t figure out what those gains and losses were and then carry those through to future transactions.”

Woodin founded Node40 in March 2015 to support infrastructure for incentivized blockchain applications. It accepted payments from its customers in bitcoin, which started a conversation about how to report bitcoin gains to the IRS.

“We weren’t sure what our tax liability was. Our accountant wasn’t sure how to figure it out, so Sean [Ryan, co-founder of Node40] and I went back to the office and ... wrote an application for us internally because the applications that were out there already weren’t giving us numbers that looked right,” Woodin said.

Ryan and Woodin realized that application could be useful to any consumer who has digital currency. The platform currently supports Bitcoin and Dash (Woodin was an early investor in Dash), and reads information in customers’ virtual wallets to aid in reporting.

“Any business that wants to interact with digital currency is going to need some sort of way to figure out what their liability is when they’re accepting digital currency,” he explained.

Woodin recommended that advisors who have clients with these types of investments focus on education and service to help them understand their property reporting requirements as they relate to digital currency.

“The IRS tells you what you need to do, but if you don’t have an intimate understanding of how the blockchain works, you can’t figure out what these numbers are supposed to be.”

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