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## Bitcoin Taxation

The commissioner of the IRS recently asked that Bitcoin investors become better educated to the fact that profits on Bitcoins are taxable. Just because purchases and sales are not currently being reported does not mean there is no tax liability from trading Bitcoin.

In Internal Revenue Service Notice 2014-21 the IRS stated that crypto-currencies like Bitcoin are NOT currency for tax purposes but instead are a personal asset. This means gains and losses would be capital in nature not ordinary income or loss; this is different than the ordinary tax treatment of “other” currencies.

In the notice the IRS is aware that “virtual currency may be used to pay for goods or services, or held for investment”. If the Bitcoin is held as an investment then the investor treats any gain or loss as capital.

### Some bad news

BUT, if Bitcoins are used as currency to buy and sell goods or services then that is a *personal use* asset; not an investment. As a personal use asset, every time you spend a Bitcoin you will not be able to deduct any losses ALTHOUGH you will have to pay tax on any gains . These gains and losses are calculated using the price of the Bitcoin when purchased and the price of the Bitcoin the day it is used to pay for the goods or services.

### The good news

The wash sale rules should not apply because Bitcoins are not securities and the wash sale rules only apply to securities.

Further, now that Bitcoins can be hedged , if investors have unrealized gains they can hedge and should not have worry about the constructive sale rules of IRC Section 1259 because Bitcoins are not an “appreciated financial position” .

## Still open questions

For those concerned about the ultimate surprise that their Bitcoins can be hacked or somehow disappear (Mt. Gox), it is unclear whether the losses incurred would be a capital loss or a casualty loss whose deduction is limited to amount of loss that exceeds 10% of the investor's Adjusted Gross Income.

We're sure that we've missed a few things that will become more apparent as Bitcoins are more fully embraced and utilized by the world of finance and investing.

For more information take a look at the WSJ Article

["No One Knows How Much to Pay in Bitcoin Cash Taxes"](#)