

## Special Notice 2021-2

Several events in 2023 require special attention for tax reporting. Please review the following as you prepare your documents for 2023 tax preparation.

### Virtual Currency (VC)

Many taxpayers are investing in virtual currency (Bitcoin, etc.). IRS requires anyone who sells, exchanges, converts to US currency or other VC, or liquidates to purchase anything, must report the activity on their tax return. Anyone who simply “holds” virtual currency is not required to report such holdings. Only “use” or conversion of VC is reportable. VC is treated as a capital asset (like stocks/mutual funds) and gain or loss must be reported. Short-term and long-term rules are applied. Mining VC is also reportable income. Each “platform” that you invest/trade in/on is required to maintain “tax reporting” records. You **MUST** obtain the tax reporting records from EACH platform that you invest with. There will be a fee from that platform BUT we cannot prepare your tax return without it. It is impossible for us to determine gain/loss without their tax reporting (gain/loss) records. Tax reporting for this activity is complex and our fees will be adjusted accordingly.

### On-line Sales

#### **\*\*This pertains to activity in your personal name & SS#**

IRS is now requiring third party payment processors (Paypal, Ebay, etc.) to report activity to them. If you are “selling” items on-line (using a third-party processor) you may receive a 1099-K tax report from that processor. If you receive a 1099-K IRS will presume you are a “business” and you must report your income and expenses and pay tax on your “profit”. If you are simply doing a “garage sale” (selling personal items) on line, you are not responsible for paying tax on the income as generally, you sell for less than what you “paid” for the item. We must still “report” the income and offset with equal cost/expense. Please provide any/all 1099-K’s you receive. You will be required to **attest** that you do not operate a business.

If you are buying items and reselling them with the intent to make a profit, you are deemed to be in “business”. You will have to file a business return (Schedule C and related forms) to report your income/expense. Please contact our office or visit our webpage to get the necessary worksheets to properly report your activity.

Secondly, if you are operating a business or deemed to be, you may be required to register with your home state taxing authority. Each state requires that any “business” selling tangible property must register as a retailer, collect and remit sales tax. It is illegal to sell at retail without being registered.

In the past IRS required any third-party processor to report activity only IF the seller had over \$20,000 in collections or had 200 or more transactions. Traditionally that eliminated most small sellers. BUT, starting in 2020, several third-party processors started reporting “all” activity, catching many taxpayers off guard and forcing us to report the activity. Recent proposed legislation asks that the reporting requirements be significantly reduced triggering many more 1099-K’s.

Please contact our office for any clarification.