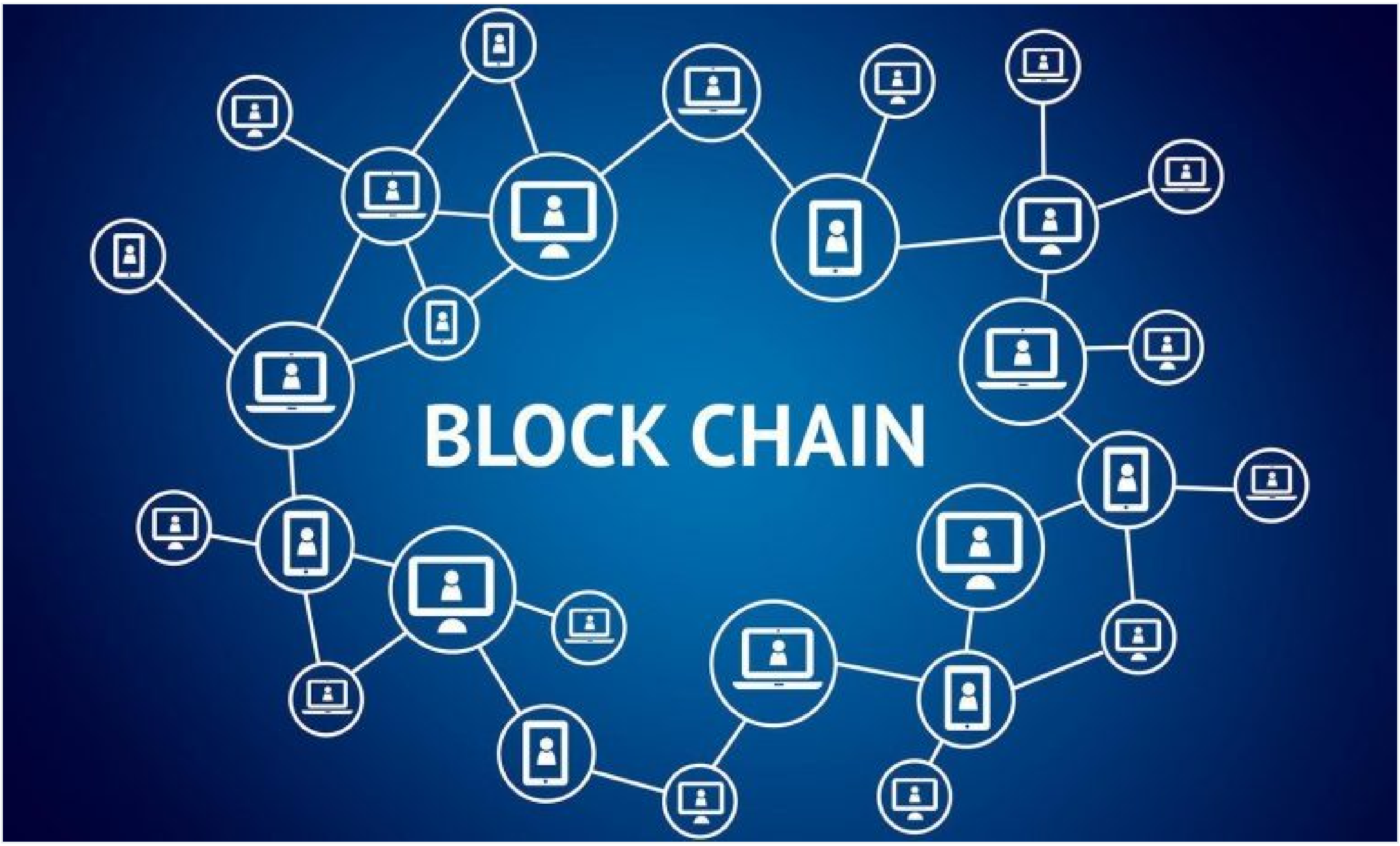

Blockchain technology and cryptocurrencies are natural partners, with decentralized control mechanisms and distributed models that emphasize secrecy as much as they offer privacy or security.

For the IRS, secrecy is a problem. More precisely, it's a missed revenue opportunity. In an effort to collect tax on the booming crypto trade, the agency has already shown a willingness to enforce taxation of crypto trading platforms. How exactly the IRS will do that, however, remains a question only the agency itself can answer. And it hasn't — yet.

Or they did, at least, until the IRS forced a major crypto trading platform last year to disclose users with high-volume transactions via a "John Doe" summons. The move demonstrated a desire on the part of the IRS to derive revenue from previously shrouded crypto transactions. Then, the Securities and Exchange Commission required platforms trading in digital assets that meet the definition of a security–including cryptocurrencies–to register as national security exchanges. The move has put further pressure on the market to comply with current IRS regulations and make informed predictions about future guidance.

Murky regulations for 1099 crypto reporting–for now

One method the IRS uses to enforce taxation is to require businesses to report taxable transactions or face financial penalties. The Tax Cuts and Jobs Act (TCJA), passed in early 2018, opened the door for the IRS to broaden taxation on crypto assets. In the TCJA, like-kind exchanges are now clearly restricted to real property only, thus closing off cryptocurrency exchanges from like-kind treatment.

But regulations surrounding tax information reporting for crypto transactions are still a bit of a mess. Language is ambiguous, and specific reporting requirements are unclear. The IRS promises to offer clarity, but the timing of any new information is still uncertain. IRS Notice 2014-21, now four years old, is still the only guidance on crypto taxation the agency has ever released, and the document is neither comprehensive nor final.

The new head of the agency says there is more to come on crypto. Charles Rettig, IRS commissioner, promised in mid-November that "the IRS will have more information about [crypto] than you could ever imagine," *Tax Notes* reported, and suggested crypto followers "pay attention to informal guidance as though it's formal guidance."

However, Rettig did not offer a date for when the IRS might release guidance of any

of coin for another, but they're not explicitly required to send the forms the way brokers are for stock trades. Generally, requirements surrounding the 1099-B remain unclear for cryptocurrencies.

The IRS has already forced a cryptocurrency exchange to report users on form 1099-K, the same form home-share and ride-share companies use to report transactions with homeowners and drivers. However, the federal reporting threshold for the 1099-K is currently set at $20,000 and 200 transactions per year. That would leave crypto platforms off the hook for reporting the vast majority of their investors' transactions. The 1099-K also lacks the cost basis details required to capture the capital gain/loss calculation that would ultimately determine taxable income and tax revenue for the IRS.

Crypto platforms still need to prepare for IRS rule changes

For now, all crypto platforms can do is heed Notice 2014-21, which remains as close to regulation on taxation as the industry has, and prepare as much as possible for the expected regulations to come. That means setting up some sort of system to automate 1099 reporting and ensure compliance now and in the future.

Doing nothing is not an option. IRS financial penalties for noncompliance are steep, with a maximum fine of nearly $3.3 million for late or incorrectly filed forms. For "intentional disregard" of reporting regulations, there is no maximum fine, and the penalty is a whopping $530 per form, compared to $270 per late or incorrect from. The IRS is not shy about levying fines and sent a warning to crypto platforms with last year's subpoena.

Blockchain and crypto might go together well, but they can't escape the IRS. Although nobody outside of IRS headquarters is quite sure exactly how, one sure thing is that the IRS is coming for crypto tax revenue. Platforms and investors have

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