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crowdfunding.

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By Carrie McKeegan, Inc. (TNS)

Crowdfunding revolutionized the way businesses and entrepreneurs raise startup capital and seed money for special projects. This democratization of finance offers flexibility and freedom, making it easier for entrepreneurs to access capital. However, crowdfunding comes with extra tax consequences. Before launching a campaign, make sure you're aware of the IRS's most recent guidance regarding money raised through crowdfunding.

What is crowdfunding?

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a tangible item in exchange for their support, such as a product or service. In an equity-based campaign, backers receive an ownership stake in the company in exchange for their support. In a donation-based campaign, backers give money to support a cause or project without expecting anything in return.

Income tax on crowdfunded assets

According to the IRS, money raised through crowdfunding is generally considered taxable income. This means that the funds must be reported on your tax return and taxes must be paid on the amount received.

That said, the specific tax implications of crowdfunding depend on the type of campaign and how the funds are used. In a rewards-based campaign, the funds received are treated as income and taxes are due on the full amount received.

In an equity-based campaign, the tax implications depend on the structure of the investment. If the investment is structured as a loan, the funds received are not subject to taxation. If the investment is structured as equity, the funds received may be subject to taxation as capital gains when the investor sells their stake.

In a donation-based campaign, the tax implications depend on whether the funds are used for a charitable purpose or a personal purpose. If the funds are used for a charitable purpose, they may be tax-deductible. However, if the funds are used for personal purposes, they are generally considered taxable income.

Additional tax implications of crowdfunding

In addition to income tax, crowdfunding may also trigger other taxes. For example, if the funds raised through crowdfunding are used to purchase inventory or equipment, sales tax may be due on those purchases. If the funds are used to hire

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To minimize the tax implications of crowdfunding, it's important to plan ahead. Before launching a crowdfunding campaign, consult with a tax professional to understand the potential consequences. Consider structuring the campaign in a way that minimizes the tax burden, such as offering rewards instead of equity.

Maintain accurate records of all funds received through crowdfunding and how they are used. Keep track of the date and amount of each contribution, as well as any rewards or equity given in exchange for the contribution. Having these records on hand will make life easier come tax time.

Most importantly, be prepared to pay taxes on the funds received so you don't get caught off-guard at tax time.

Is crowdfunding right for your business?

Crowdfunding can be a great way for entrepreneurs and small-business owners to raise capital, but it's important to understand the tax implications of crowdfunding before launching a campaign. With careful planning and record keeping, you can minimize the tax burden and ensure that your crowdfunding campaign is a success.

ABOUT THE AUTHOR

Carrie McKeegan is CEO and co-founder of Greenback Expat Tax Services, a 40-plus person global fully remote business.

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