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IMPACT OF CHANGES TO INFORMATION REPORTING FOR CRYPTO TRANSACTIONS

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BACKGROUND

The BEPS 2015 Action 1 Report laid the foundation for a project within the OECD to work on addressing the challenges arising from the digitalization of the economy. Rooted within this project was the analysis for the recently released Taxing of Virtual Currencies. On a parallel course was the US Treasury/Internal Revenue Service (IRS) analysis on the proper reporting and basis calculation for virtual currencies. Both of these regulatory agencies expect to publish final rules in 2021

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WHAT IS HAPPENING?

Both of these regulators expect to publish changes that will increase the calculation and taxation of transactions in crypto and virtual currencies. They will take on different approaches to reporting, but ultimately they will expose taxpayers to the taxing authority thus identifying the taxpayer.

A report published by the OECD identifies that there will be an expansion of the reporting obligations under the Common Reporting Standards (CRS). This change includes the valuation of virtual currencies and reporting of the total market value to participating countries.

The IRS are also expected to publish new requirements on the proper reporting of virtual currencies. This will be a transactional reporting capturing the disposition of a position on Form 1099. These requirements will also include acceptable calculation of cost basis and proper adjustments to basis for splits and exchanges of positions.

WHAT IS THE TIMING OF THE CHANGES?

Although both regulators have committed to publishing rules in 2021, neither has been clear on when the regulations are effective. If the regulators allow for system development time the hope is that the reporting will begin with 2022 transactions but/however we cannot rule out 2021 reporting obligations.

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WHAT ARE OTHER IMPACTS TO THE INDUSTRY?

So far, we have identified that there is a requirement to report certain transactions and values; this would include assets directly executed through an exchange, wallet or account. We should also outline that before reporting is required you need to determine if reporting is required and under which rules. There are scenarios where the transaction can be exempt from reporting. If you do not have a process to execute information reporting, now is the time to budget to add a process. There are good packages that are worthy of a build vs buy analysis.

How will you comply with Crypto Reporting rules?

HOW CAN I BE PROACTIVE?

The first step is to do some due diligence on your accounts. Confirm you have good presumption rules where documentation is not present. Collection of documentation under Foreign Account Tax Compliance Act or CRS will be required to ensure that reporting is done under the correct reporting regime. Documentation will identify which reporting requirements the account falls under and if there are any exemptions to the reporting. For more information on TAINA and how we improve document processing, please click on the link:

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