

---

# The Step-by-Step Guide To Completing Your Crypto Taxes

PROVIDED BY CRYPTOTRADER.TAX



WHITE PAPER

# The Step-by-Step Guide To Completing Your Crypto Taxes

As the IRS continues to focus on cryptocurrency-related tax audits, more and more individuals are becoming aware of the importance of accurate crypto tax reporting.

This guide is meant to serve as an informational resource to help cryptocurrency investors gain a better understanding of the crypto tax reporting process. This information will allow more investors to stay compliant and help the ecosystem continue to grow as a whole.

This guide was created by the tax team at [CryptoTrader.Tax](#). It specifically focuses on tax rules within the U.S., but similar issues arise in countries around the world.



[CryptoTrader.Tax](#) is a leading cryptocurrency tax reporting software used by tens of thousands of crypto investors all over the world. You can use the software to generate your needed crypto tax reports with the click of a button.

*Disclaimer: this guide is for informational purposes only and shouldn't be considered tax advice or an individualized recommendation. Please consult a tax-planning professional regarding your personal tax circumstances.*

## Step One:

### Understand the tax implications of cryptocurrency.

The first step for properly reporting cryptocurrency on your taxes is to learn how the IRS treats the asset for tax purposes. Don't worry, you don't need to become a tax expert! However, it is worthwhile to gain an understanding of how the basics work so you can properly report.

If you're already familiar with the tax implications of crypto, feel free to skip this section and move onto **Step 2: Organize Your Data**.

### Crypto Taxes Overview

In the U.S., you are taxed on the income you earn. Plain and simple. It's not a surprise then that the income you generate via cryptocurrency is also taxable, and it needs to be reported on your taxes.

## Capital Gains & Capital Losses

As discussed in their official [2014 virtual currency guidance](#), the IRS treats cryptocurrencies like bitcoin as property—not as currency. This means that capital gains and losses tax reporting rules apply when investing in cryptocurrencies just like they do with other forms of property like stocks, bonds, and real-estate.

Expanding on this, whenever you dispose of cryptocurrency—either by selling it, trading it, or using it to purchase goods or services—you trigger a taxable event and incur a capital gain or loss on the transaction. This gain or loss is a form of income and needs to be reported on your tax return.

You “dispose” of your crypto, and thus incur a taxable event, whenever one of the following occur:

- sell crypto for fiat currency (like USD)
- trade crypto for another cryptocurrency
- spend crypto to purchase a good or service

Transferring crypto from one wallet to another is **NOT** a taxable event. You are not getting rid of (disposing of) your crypto. You are simply moving it around.

### Example One

Lucas buys 1 BTC for \$10,000. Two months later, he sells that BTC for \$12,000. In this simple example, Lucas has a \$2,000 capital gain upon disposing of his BTC. He reports this gain with his taxes.

Depending on what tax bracket Lucas falls under, he pays a certain percentage of tax on his \$1,000 gain. Tax rates fluctuate based on your income tax bracket as well as depending on whether it was a short term vs. a long term gain.

### Example Two

Lucas buys 1 BTC for \$10,000. Two months later, he trades 0.5 of that BTC for 10 ETH.

This is still considered a disposition of his BTC (trading BTC for ETH), and therefore Lucas needs to calculate his gain or loss on the transaction. To calculate how much he gained or lost on the trade, Lucas needs to know what the Fair Market Value of 10 ETH were at the time of the trade.

Let's say 10 ETH were trading at \$4,000 at the time.

In this case, Lucas would incur a \$1,000 capital loss (he sold 0.5 BTC that he acquired for \$5,000 for \$4,000 worth of ETH).

*Important Note - you can significantly reduce your overall tax bill by filing your crypto losses. Don't miss out on these tax savings.*

## Earning Crypto

Crypto that you earn from mining, staking, interest accounts, a job, or various other sources is **not** treated as capital gains income. Crypto earnings need to be reported differently from the capital gains and losses we discussed in the section above.

### Example

Mitchell runs a cryptocurrency mining rig in his basement. Every week, he earns 0.02 bitcoin from his mine.

From a tax reporting perspective, Mitchell recognizes income equal to the Fair Market Value of his bitcoin earnings at the date and time that he receives his mining payouts.

On July 2, Mitchell received 0.02 BTC from his mine. At this time, 0.02 BTC was worth \$200. Therefore, Mitchell recognizes \$200 of income.

### Quick Summary:

**All crypto sells, conversions, trades, payments, donations, and earned income are required to be reported by US taxpayers on their tax return.**

## Step Two:

### Organize all of your data.

Once you have a baseline understanding of how cryptocurrency-related income is taxed, you are ready to move on to Step 2: organizing your data.

To report your crypto income, you need to calculate your capital gains and losses in USD terms for each of your historical trades as well as any earned crypto (mining, staking, interest-accounts etc).

To do this, make sure to pull together:

- transaction history from each exchange you traded on
- records for any earned crypto
- records for any gifts sent or received
- records of crypto received from air drops or fork events
- any other transaction history that you have.

For the average investor, this process is as easy as pulling the transaction history from your cryptocurrency exchanges (like Coinbase, Binance, Kraken etc).

Once you have pulled together all of the records that make up your cryptocurrency transaction history, you are ready to move on to the next step!

*Note - If you are using cryptocurrency tax software, you can automatically retrieve your crypto transaction history from your exchanges with the click of a button from within your account. Run your tax reports based on this data.*

### Pro Tip:

You can follow these [help guides](#) to learn how to pull the transaction history from each exchange that you traded on over the years.

## Step Three:

### Calculate your gains and losses.

Once you have gathered all of your trade history and information, you are ready to calculate your capital gains and losses and report them on [IRS Form 8949](#).

To calculate your gains and losses for each of your crypto disposals, simply apply the formula below.

**Fair Market Value - Cost Basis = Gain or Loss**

Fair market value is how much your crypto was worth in US dollar terms at the time of the sale. Cost basis will be how much it cost you in US dollars to acquire the coin.

Taking this information into account, we walk through a trade history example below and show how it would get reported on Form 8949.

## EXAMPLE TRADE HISTORY:

- 6/1/2019 - BUY - 0.1 BTC for \$100
- 8/1/2019 - TRADE - 0.1 BTC for 0.5 ETH
- (0.5 ETH worth \$90 at the time)
- 9/1/2019 - SELL 0.5 ETH for \$200



The above trade history would get reported on Form 8949 as depicted below.

Form <b>8949</b>		<b>Sales and Other Dispositions of Capital Assets</b>					OMB No. 1545-0074
Department of the Treasury Internal Revenue Service		► Go to <a href="http://www.irs.gov/Form8949">www.irs.gov/Form8949</a> for instructions and the latest information. ► File with your Schedule D to list your transactions for lines 1b, 2, 3, 8b, 9, and 10 of Schedule D.					<b>2019</b> Attachment Sequence No. <b>12A</b>
Name(s) shown on return			Social security number or taxpayer identification number				
<p>Before you check Box A, B, or C below, see whether you received any Form(s) 1099-B or substitute statement(s) from your broker. A substitute statement will have the same information as Form 1099-B. Either will show whether your basis (usually your cost) was reported to the IRS by your broker and may even tell you which box to check.</p>							
<b>Part I Short-Term.</b> Transactions involving capital assets you held 1 year or less are generally short-term (see instructions). For long-term transactions, see page 2.							
<b>Note:</b> You may aggregate all short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the totals directly on Schedule D, line 1a; you aren't required to report these transactions on Form 8949 (see instructions).							
<b>You must check Box A, B, or C below. Check only one box.</b> If more than one box applies for your short-term transactions, complete a separate Form 8949, page 1, for each applicable box. If you have more short-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.							
<input type="checkbox"/> <b>(A)</b> Short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see Note above) <input type="checkbox"/> <b>(B)</b> Short-term transactions reported on Form(s) 1099-B showing basis <b>wasn't</b> reported to the IRS <input checked="" type="checkbox"/> <b>(C)</b> Short-term transactions not reported to you on Form 1099-B							
1	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold or disposed of (Mo., day, yr.)	(d) Proceeds (sales price) (see instructions)	(e) Cost or other basis. See the Note below and see Column (e) in the separate instructions	Adjustment, if any, to gain or loss. If you enter an amount in column (g), enter a code in column (f). See the separate instructions.	(h) Gain or (loss). Subtract column (e) from column (d) and combine the result with column (g)
	0.1 BTC	6/1/2019	8/1/2019	\$90	\$100		-\$10
	0.5 ETH	8/1/2019	9/1/2019	\$200	\$90		\$110

## Pro Tip:

You can use cryptocurrency tax software to automatically generate your completed IRS Form 8949 for you.

# **Step Four:**

## **Sum up your net gains and losses and transfer total to Schedule D.**

After each of your taxable transactions are reported on 8949, sum up each transaction in column (h) to arrive at your net capital gain or loss number. Transfer this total to Form Schedule D (the form used to report capital gains income).

# **Step Five:**

## **Report any income earned in cryptocurrency.**

Remember, any income earned in cryptocurrency (mining, staking, interest earned) needs to be reported on your tax return. The amount of income reported should be based on the fair market value (in US Dollars terms) of the cryptocurrency income at the time you received it.

# **Step Six:**

## **Include your crypto tax forms with your tax return.**

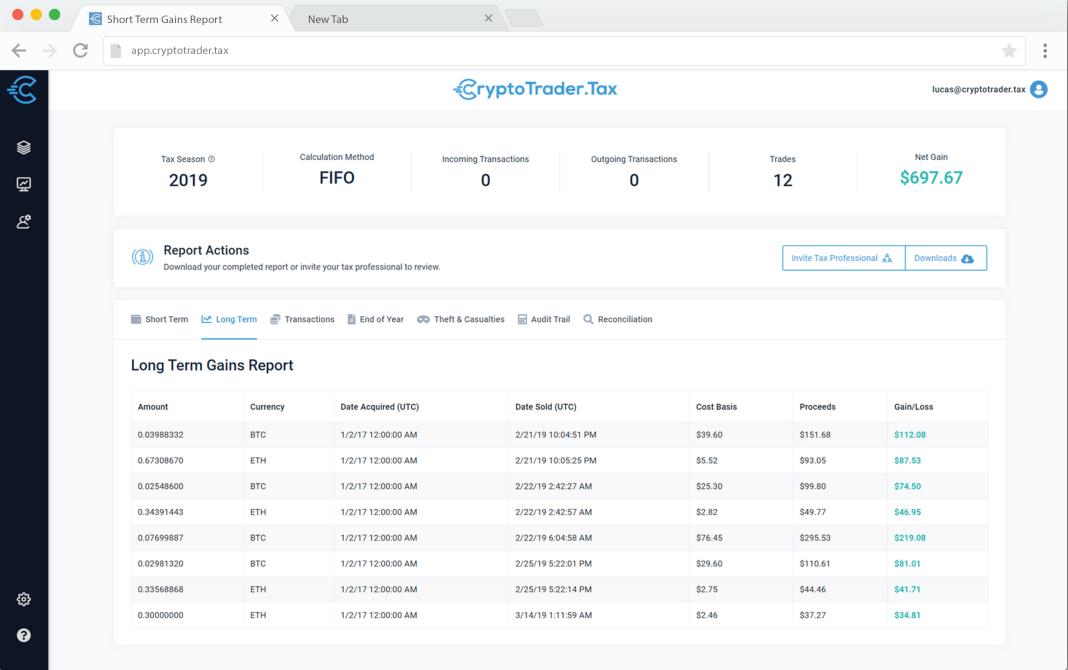
Once you have completed your Form 8949 and reported your crypto income, you are ready to file your taxes.

If you typically hire a tax professional to do your taxes, simply send these documents over to them. They will easily be able to include it with your tax return. If you instead typically use DIY tax filing software like TurboTax or TaxAct, you can import your crypto tax forms right into your TurboTax account so that they are included with your tax return. Learn how to import crypto tax forms into TurboTax [here](#).

And there you have it! That's the entire process.

If you have any further questions about cryptocurrency taxes, feel free to reach out to our live-chat customer support team on the CryptoTrader.Tax [website](#). We are happy to answer any of your questions free of charge.

## Get a free preview of your crypto tax report!



The screenshot shows a web-based application window titled "Short Term Gains Report" from "app.cryptotrader.tax". The main header includes the "CryptoTrader.Tax" logo and a user email "lucas@cryptotrader.tax". Below the header, a summary box displays "Tax Season: 2019", "Calculation Method: FIFO", "Incoming Transactions: 0", "Outgoing Transactions: 0", "Trades: 12", and "Net Gain: \$697.67". A "Report Actions" section allows users to download their completed report or invite a tax professional to review it. Below this, a navigation bar offers links to "Short Term", "Long Term", "Transactions", "End of Year", "Theft & Casualties", "Audit Trail", and "Reconciliation". The main content area is titled "Long Term Gains Report" and contains a table with the following data:

Amount	Currency	Date Acquired (UTC)	Date Sold (UTC)	Cost Basis	Proceeds	Gain/Loss
0.03988332	BTC	1/2/17 12:00:00 AM	2/21/19 10:04:51 PM	\$39.60	\$151.68	\$112.08
0.67308670	ETH	1/2/17 12:00:00 AM	2/21/19 10:05:25 PM	\$5.52	\$93.05	\$87.53
0.02549600	BTC	1/2/17 12:00:00 AM	2/22/19 2:42:27 AM	\$25.30	\$99.80	\$74.50
0.34391443	ETH	1/2/17 12:00:00 AM	2/22/19 2:42:57 AM	\$2.82	\$49.77	\$46.95
0.07699887	BTC	1/2/17 12:00:00 AM	2/22/19 6:01:58 AM	\$76.45	\$295.53	\$219.08
0.02981320	BTC	1/2/17 12:00:00 AM	2/25/19 5:22:01 PM	\$29.60	\$110.61	\$81.01
0.35568668	ETH	1/2/17 12:00:00 AM	2/25/19 5:22:14 PM	\$2.75	\$44.46	\$41.71
0.30000000	ETH	1/2/17 12:00:00 AM	3/14/19 1:11:59 AM	\$2.46	\$37.27	\$34.81

- ✖ Pull together all of your crypto tax information by hand
- ✖ Look up historical US Dollar prices for your trades
- ✖ Calculate gains and losses for every transaction in excel
- ✓ Use [CryptoTrader.Tax](#) to automate the entire process

Learn more about how CryptoTrader.Tax works [here](#).

You can download a free preview of your completed tax report showcasing your net gains and losses reported in US Dollars by following the below steps! No credit card required.

1. Create a [free account](#)
2. Connect your exchanges and import your trades
3. Run your tax report based off this data

Once complete, you can get a free preview of your net gains and losses! Only pay for your full report after you know everything looks correct.

## Get Started:

Get started building your free crypto tax report preview [here](#). No credit card required.

## What other crypto investors are saying...



vikash sarraf

Local Guide · 25 reviews

★★★★★ 2 months ago

You guys are doing a great job. I had so many questions on how will I file crypto related taxes but with your tool it was flawless. I am your customer for life!

Like

Share



Ashley Ottomoeller

Local Guide · 35 reviews



★★★★★ 3 months ago

Used this service this tax season and loved it! Everything went smoothly and was easy to understand, only took a few minutes to sign up and had everything in a nice format. Definitely using this again next year. I have told Friends and Co-workers about this service and highly recommend it to everyone!

1

Share



Cory D

1 review

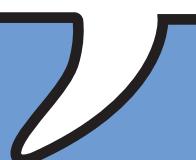


★★★★★ 3 months ago

CryptoTrader.Tax made a difficult and confusing task very simple and manageable. I had a question during the process in which I reached out to customer service - they were very friendly and helped me resolve my issue within minutes. I was able to generate my tax documents in no time at all! Very happy with my experience and will use again next year.

Like

Share



Zack Klapman

7 reviews



★★★★★ 3 months ago

Incredibly helpful. The user interface is good, the explanations and directions are good, and their customer service is exceptional. It really is. Their live chat is better than anything I've encountered before. They helped me find some errors I had made, find missing info, etc. They held my hand through it.

Like

Share



## What other crypto investors are saying...



Adam Watson  
2 reviews

★★★★★ a month ago

Excellent product! I bought three years worth of reports and in less than a half hour I was able to get complete documents to my accountant. I'd tried a competitive product the previous month and it was a far more complicated process.

Like

Share

⋮



Gary  
2 reviews

★★★★★ a week ago

Just wanted to leave a quick review. I have used Cryptotrade for the last three years now. In my opinion, one of the best in what they do. I have tried other sites/services but they just didn't work out for me. I feel like this site is very user friendly and the support via chat is great as well. Would recommend to others.

Like

Share

⋮



Dan  
@SovietQuake



@CryptoTraderTax Thank you \*SO MUCH\* for existing!! I am in absolute awe of your platform 🙏 I had over 1,000+ transactions spanning 2013-2018 across a dozen exchanges with the IRS on my back. You guys just saved me COUNTLESS DAYS' worth of manual labor & thousands of dollars ❤️

13 5:34 PM - Sep 14, 2019

ⓘ



Russell Jones  
@codeofficer



If you need to prepare tax forms for your 2018 crypto purchases I can't speak highly enough of @cryptotradertax. 10 minutes from signup to downloadable tax docs, which included a live chat support inquiry and its resolution. Unbelievable. Take my money.

5 3:19 PM - Mar 3, 2019 · Portland, ME

ⓘ



