

# **STATEMENT OF WORK (SOW)**

## **VIRTUAL CURRENCY EXAMINATION SUPPORT**

### **1. INTRODUCTION.**

The Internal Revenue Service (IRS) requires consulting services to support a taxpayer examination involving virtual currency. In particular, the IRS requires consulting services to calculate taxpayers' gains or losses as a result of their transactions involving virtual currency. Specific requirements are outlined below.

### **2. BACKGROUND.**

In [Notice 2014-21](#), the IRS applied general principles of tax law to determine that virtual currency is property for federal tax purposes. The Notice explained, in the form of 16 FAQs, the application of general tax principles to the most common transactions involving virtual currency. Expanding on this 2014 guidance, the IRS recently issued additional detailed guidance—[Revenue Ruling 2019-24](#)—to help taxpayers better understand their reporting obligations for specific transactions involving virtual currency. The new Revenue Ruling addresses common questions by taxpayers and tax practitioners regarding the tax treatment of a cryptocurrency hard fork and airdrop. In addition, a set of new [FAQs](#) address virtual currency transactions for those who hold virtual currency as a capital asset.

To comply with their income tax obligations, taxpayers must track their virtual currency transactions. The transactions that are the subject of this Statement of Work occur on various commercial digital asset exchanges or are reflected on public ledgers (such as a blockchain).

### **3. SERVICES TO BE PROVIDED.**

#### **1. Data Ingestion and Staging.**

Taxpayer transactions can be relatively simple, or in some instances, they can have hundreds of thousands of digital asset transactions in a year. These transactions can occur across multiple exchanges and digital wallets. The wallets can be online, on a personal hardware device, or even on paper. These transactions need to be aggregated, and the assets involved need to be valued, as part of the process of computing gains and losses. Additionally, specialized technology and infrastructure is required to digest, contain, and analyze virtual currency data due to unique requirements such as but not limited to decimal place precision, varying field formats, and file formats.

The contractor will ingest all data provided by the IRS, as well as any attendant or related data the contractor collects through their systems, necessary to produce the report described in Phase 2. Ingestion will occur utilizing secure file transfer methods between the IRS and the contractor.

## **2. Report Preparation, Summary Explanation, and Data Discrepancy Analysis.**

After ingesting the data in Phase 1, the contractor will provide a report summarizing characteristics of the data including potential gaps in completeness of data and/or accuracy of calculations. If possible, based on the data characteristics, calculated gains or losses will be provided for each asset for each of the years at issue and a summary explanation of the methodology used to produce the report. Any issues with the data that prevent an accurate or complete calculation will be summarized with any recommendations to correct data or obtain more data as required. The contractor will also report on instances where the taxpayer's data is inconsistent from what would be expected from normal accounting practices.

## **3. Error Resolution and Report Revision.**

After creating the report and identifying inconsistent data, the contractor will work with the IRS to resolve data inconsistencies. This could include, but is not limited to, obtaining more information from the taxpayer or adjusting the data under the direction of the Revenue Agent. Thereafter, the contractor will produce a revised report consistent with the resolutions discussed with the IRS.

## **4. Meeting Participation and Trial Assistance.**

The contractor must be available to consult with the IRS during meetings with taxpayers or their representatives, and to assist the IRS with trial preparation. This could include, meeting with an IRS Appeals Officer and answering questions about the report.

## **5. Trial Testimony.**

The contractor may need to testify at trial as a summary witness explaining the calculations derived from the underlying data.

# **4. WORK PHASES.**

## **4.1. Data Ingestion and Staging.**

A. Desired Outcome: The contractor will ingest all data provided by the IRS, as well as any attendant or related data the contractor collects through their systems, to produce the report described in Phase 2.

- B. The data to be ingested may include , but is not limited to:
- i. Publicly available on-chain data and private off-chain data;
  - ii. API keys obtained through exchanges, wallets, etc.;
  - iii. CSV, Excel, or PDF files from various sources;
  - iv. Paper documentation submitted by taxpayers;
  - v. Data obtained through merchant electronic systems;
  - vi. Related data obtained by the contractor for valuation purposes.

- C. The amount of data expected to be ingested is:

*[data and years at issue will vary from case to case]*

2017 Year: Files: xlsx, csv	Lines of Data:	20,000
2017 Year: Files: xlsx	Lines of Data:	1,500
2017 Year: Files: xlsx	Lines of Data:	500

#### **4.2. Report Preparation, Summary Explanation, and Data Discrepancy Analysis.**

A. Desired Outcome: The contractor will provide a report computing gains or losses for each year(s) at issue and a summary explanation of the methodology used to produce the report. The contractor will also report on instances where the taxpayer's data is inconsistent from what would be expected from normal accounting practices.

B. Report Technical Standards: The report computing gains or losses, must reflect the contractor's ability to:

- i. **Track cost basis** (in USD) for each unit (or fractional unit) of virtual currency by specific identification. In doing so, the following information must be included:
  - a. Type of virtual currency;
  - b. Quantity (in fractional units); and
  - c. Identifying information for the unit (or fractional unit).
- ii. **Provide cost basis computations** for virtual currency lacking a USD analog or trading pair.

- iii. **Provide information on the acquisition** of virtual currency. In doing so, the following information must be included:
  - a. Type of virtual currency;
  - b. Quantity (in fractional units);
  - c. Date and time of the acquisition;
  - d. Value at the moment of acquisition; and
  - e. Identifying information for the unit (or fraction) of asset.
- iv. **Provide tracking information for all sales or other disposition transactions**, including but not limited to buy, sell, send, and receives, across multiple platforms, wallets, and exchanges. In the case of digital assets, this may include both on-chain and off-chain transactions to the extent feasible. In doing so, the following information must be included:
  - a. Type of virtual currency;
  - b. Quantity (in fractional units);
  - c. Date and time of the disposition;
  - d. Value at the moment of disposition; and
  - e. Identifying information for the unit (or fractional unit) of virtual currency.
- v. **Permit manual adjustments to the tax character and/or basis of the asset** (classifying an asset as inventory versus non-inventory).
- vi. **Identify asset holding periods.**
- vii. **Identify assumptions made by the contractor or its systems** in creating the report, if any.

C. Summary Explanation: The summary explanation shall be in narrative form with technical terms explained.

D. Data Inconsistencies: The contractor will also report on instances where the taxpayer's data is inconsistent from what would be expected from normal accounting practices and explain.

## Optional Services

### 4.3. Error Resolution and Report Revision.

A. **Desired Outcome:** After creating the report described in Section 4.2, the contractor will work with the IRS to resolve in the report any data that is inconsistent from normal accounting practices. This could include, but is not limited to, obtaining more information from the taxpayer or adjusting the data under the direction of the Revenue Agent. Thereafter, the contractor will produce a revised report reflecting the resolutions discussed with the IRS.

- B. Errors Requiring Resolution may include, but are not limited to:
- i. Dispositions of virtual currency assets where no acquisition information of those assets is available;

#### **4.4. Meeting Participation and Trial Assistance.**

The contractor must be available to consult with the IRS during meetings with the taxpayers or their representatives. Consultation includes but is not limited to: (a) explaining the methodology used in arriving at the conclusions in the report; (b) explaining any assumptions made by the contractor's algorithms in creating the report (including data inconsistencies, resolution and report revisions). Meetings will be held by teleconference at the convenience of all participants. Any trial assistance before trial will occur under this phase.

The following performance standards will be met:

- (a) the contractor demonstrates familiarity with facts pertinent to the report;
- (b) the contractor demonstrates professionalism in effective verbal communication and interpersonal team skills;
- (c) the contractor, within reason, responds to IRS written or oral inquiries in a timely manner.

#### **4.5. Trial Testimony.**

The contractor may need to testify at trial as a summary witness explaining the calculations derived from the underlying data.

The following performance standards will be met:

- (a) the contractor demonstrates familiarity with facts pertinent to the report;
- (b) the contractor demonstrates professionalism in effective verbal communication on the witness stand;
- (c) the contractor, within reason, responds to IRS written or oral inquiries in a timely manner.

**Travel:** The IRS will be responsible for reimbursement of travel costs only when such travel has been authorized in advance of travel by the Contracting Officer's Representative (COR), not to exceed the funding limitation established by the Contracting Officer at time of contract award or through contract modification.

Travel expenses will be limited to travel and per diem expenses at rates established in the Federal Travel Regulations for official Government travel. The Government reserves the right to determine modes of transportation, routes, etc., for purposes of travel cost reimbursement.