

CALCULATE TAXABLE PORTION FROM CRYPTO GAINS

May, 2021

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I'm an investor and an entrepreneur, not an accountant or an attorney. I manage risk as a profession. If I need accounting, I hire a bookkeeper or other accounting professional; however, I can read. When it comes to my money, I have demonstrated competence to manage it in a responsible way. Therefore, I can make the following analysis.

Part of the reason I believe there is much confusion regarding the so-called "tax on cryptos" is because all the news on the Internet tells everyone that trades between coins are reportable and taxable. This is only determined by an accounting practice and it might be true, especially if you were using accrual based accounting; however, we are not required to use accrual based accounting, nor is it necessary for our purposes, the consumer-type investor. We use cash basis accounting, I like to call it "what you see is what you get". You are taxed for the disposition of property (or an asset) when you actually have the right to receive and spend the dollars you received in exchange for the asset and where the beneficial interests were different. Additionally, the IRS does not assign any *unique tax lot identification* or apply any of its methods to each of your purchases like it does for corporate shares using an accrual basis accounting practice. What you are reading on the Internet is the wrong accounting practice for the type of asset and the type of investor. You are being told that your only option is the "Specific Identification Method" and this is what the exchange software is using. This is an accounting practice and you are not required to use this specific accounting practice, especially since most of you are appropriately using cash basis accounting.

Additionally, beneficial interests do not change when you are trading one coin for another in your own portfolio. Trading one coin that you "own" for another coin that you already "own", does not constitute a "purchase" by IRS instructions.¹ I would even argue that trading between people in the same household does not change the beneficial interests. Likewise, this type of transaction does not require you to answer "yes" as having *purchased* cryptographic currency on your tax form (Form 1040). Nearly every tax attorney or accounting services website I have been reading gives the incorrect advice on what the IRS defines as a "purchase" of crypto-graphic currency. The only time you are expected to answer "yes" to the question on Form 1040 is if you used crypto-graphic currency to buy crypto-graphic currency from a second party with a completely different beneficial interest. This is considered a "purchase" by the IRS.²

How do you calculate a gain and subtract the correct proportion of my cost basis when I do not sell my entire holdings or the entire initial principal investment?

To calculate reportable gross income after taking a small portion from a new principal (original investment being worth much more for example), you **subtract** the **product of the original investment** and **[the amount you are taking divided by the new value of the principal]** from the amount you are taking; as in this example:

1 <https://www.irs.gov/individuals/international-taxpayers/frequently-asked-questions-on-virtual-currency-transactions>, Question 5 Answer 5 (Q5 A5)

2 https://youtu.be/b5Z_tjTBBKw

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\$23,500 was the original investment and now it's worth \$400,000. I only want to take out \$20,000 for personal expenses.

The taxable amount is \$20,000 but it's measured against the same proportion of my original investment of \$23,500. \$20,000 is 5% of \$400,000. The same proportion of my original investment is 5% of \$23,500 or \$1,175.

The gross reportable income is then

$$\$20,000 - (\$20,000 / \$400,000) \times \$23,500 = \$18,825$$

or, the new taxable amount of \$20,000 minus the proportionate taxable amount of \$1,175 which is **\$18,825**. This is the same ratio of 0.05 or 5% against the new principal, but after deducting the cost basis with the same proportion. If you take the entire \$400,000 as a gain, you can simply subtract out 100% of the original principal to be taxed on the difference:

$$\$400,000 - (\$400,000 / \$400,000) \times \$23,500 = \$376,500.$$

If you have **short term** and **long term** holdings, and you made a series of buys over a period of time that includes long term and short term, you can just make this calculation once for the long term amount and once for short term amounts and then apply the appropriate tax rates to each.

There is no need to track coins and coin-to-coin exchanges, especially using any of the software offered by the exchanges because we've already confirmed that they are inaccurate to say the least, not to mention are using the wrong accounting practices. I believe that the purpose of getting you to track coin to coin exchanges is to make this confusing and frustrate people into doing whatever their accountant tells them, and the accountant is afraid of retaliation from the tax collector, so he or she will recommend whatever is popular.

If crypto-graphic currency is defined by the tax collector as "property", just like gold, then why would the price against dollars be significant until there is a sale? We know that gambling is a taxable activity. If I gamble with crypto-graphic currency and win more coins, we know that the tax must be paid in currency. The reason is that the law taxes currency, not property. If the law taxed property, you would pay the tax with a portion of the property. There is no tax owed until the gambling winnings (usually tokens or chips) is exchanged for currency. If I trade my own coins with each other and the total cons value increases in terms of currency, the only tax is when I sell all or a portion of the coins for the currency. It is the currency that is being taxed, not the "property". You are not required to sell, but when you do, a portion of the currency you receive would be subject to reporting and taxes. If you are able to convert the property into another kind of property without realizing a gain, you can legally acquire a new asset (or liability) without a tax liability.

Finally, why would you use this type of software when you are liable under penalties of perjury and the software publisher disclaims all liability? Here is an example:

Example Disclaimer from CoinTracker:

"Company does not provide investment advice

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The Company is a cryptocurrency portfolio management service only and does not advise Users on the merits of any particular transactions or their taxation consequences. By using the CoinTracker Properties, you represent that you have been, are, and will be solely responsible for making your own independent appraisal and investigations into the risks of any transaction and the underlying currencies involved in such transactions. You represent that you have sufficient knowledge, market sophistication, professional advice and experience to make your own evaluation of the merits and risks of any transaction or any underlying currency. The Company gives you no warranty as to the suitability of the cryptocurrency transactions in your portfolio(s) and assumes no fiduciary duty in its relations with you. You agree that the Company is not responsible for determining whether or which taxes apply to your transactions. You further agree that you are solely responsible for reporting and paying any taxes arising from your cryptocurrency transactions listed in your portfolio(s) on the CoinTracker Properties.”

And further:

“We endeavor to keep CoinTracker and the Services as secure as possible but you hereby acknowledge that no system involving the transmission of information via the Internet, or the electronic storage of data, is completely secure. We are not liable for any loss, theft, unauthorized access, disclosure, copying, use, or modification of your personal data that occurs outside our reasonable control. The Company also makes no warranties as to the reliability or accuracy, completeness, or quality of any information on CoinTracker or obtained through the Services. you agree that the Company is not liable for any errors, omissions, loss or damage which may be caused by your use of CoinTracker or Services, to the fullest extent permitted by law. Any damage that may occur to You, through your computer system, or as a result of loss of your data from your use of CoinTracker or Services is your sole responsibility.”

It's more important now than ever that you take responsibility for your own finances and not just blindly accept what you read or are being told by professionals in the industry, including myself. Case in point, each time I talk with an accountant anywhere, in any country, he or she begins the discussion with what is commonly published on the Internet regarding “crypto taxes” and then I ask, what laws have changed? The response is always an embarrassing laugh, admitting there no laws have changed regarding the so-called “crypto taxes”.

Form 1040 “Yes or No” Parts I, II and III

Part I https://youtu.be/b5Z_tjTBBKw

Part II <https://youtu.be/Uj3JTxTJtDg>

Part III <https://youtu.be/DI7dzzTahsc>