Are Crypto Investors Reporting Their Taxes in 2023?

CoinLedger Annual Crypto Tax Report

CoinLedger

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Executive Summary

The data contained in this report is taken from a survey commissioned by CoinLedger and carried out by YouGov. The total sample size was 305 US adults (aged 18+) who own or invest in cryptocurrency. Fieldwork was undertaken between December 2nd - December 8th, 2022. The survey was carried out online and completely anonymous.

Takeaways:

- 58% of investors said they reported crypto on their taxes. Meanwhile, 31% said they didn't report crypto on their taxes, while 11% declined to answer.
- 50% of investors who didn't report their taxes said their primary reason for not reporting was 'I haven't made a profit on cryptocurrency.'
- Most crypto investors were unable to correctly identify taxable and non-taxable crypto transactions. Only 38% of investors were able to correctly identify crypto-to-crypto trades as taxable.
- 59% of crypto investors said they were prepared for tax season, while 41% said they felt unprepared.
- 68% of crypto investors said they either 'Strongly Agree' or 'Somewhat Agree' with the statement 'I wish cryptocurrency exchanges gave me more information to help me report my taxes.'

Introduction

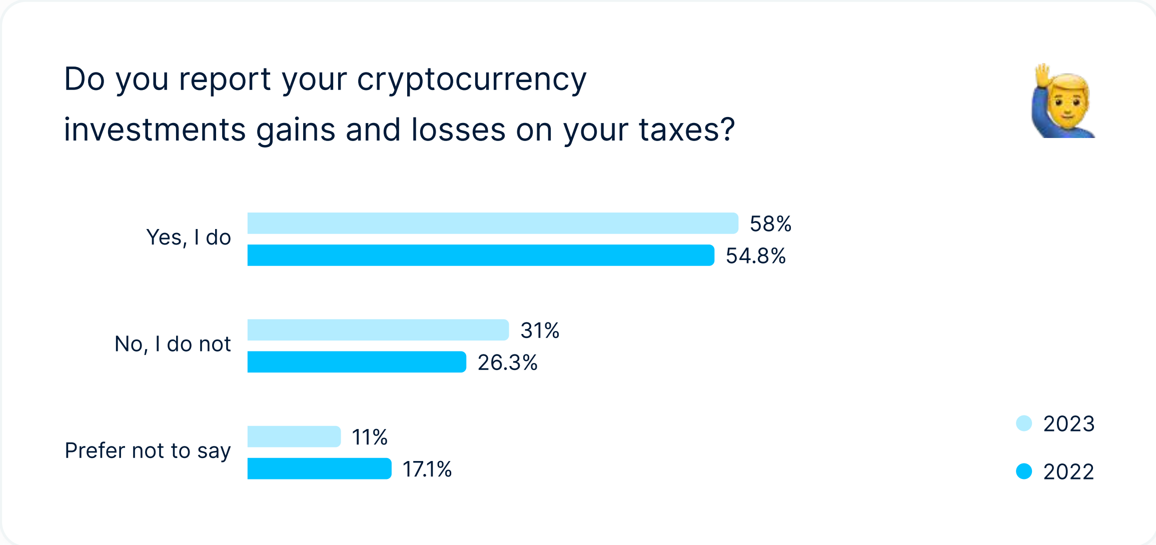
While 2021 saw Bitcoin and Ethereum hit all-time highs, 2022 was a difficult year for crypto investors across the globe. After the stunning collapse of crypto platforms like Voyager, Celsius, and FTX, the cryptocurrency ecosystem has lost more than $1 trillion of value.

At the height of last year's bull market, CoinLedger commissioned a survey to find out how many crypto investors were reporting their taxes.

Since December 2021, the cryptocurrency ecosystem has lost billions of dollars of value and is most likely entering a bear market. Today, cryptocurrency investors are facing heavy losses and the specter of increased regulatory scrutiny.

Once again, we teamed up with YouGov to run a similar survey and find out how cryptocurrency tax reporting has changed in the past year. At the end of the report, we'll use the data we collected to analyze how crypto tax reporting will change in the future.

58% of crypto investors report crypto on their taxes.



58% of crypto investors said that they report their cryptocurrency transactions on their taxes. This is a 4% increase compared to last year, which implies that crypto tax reporting compliance is slowly increasing over time.

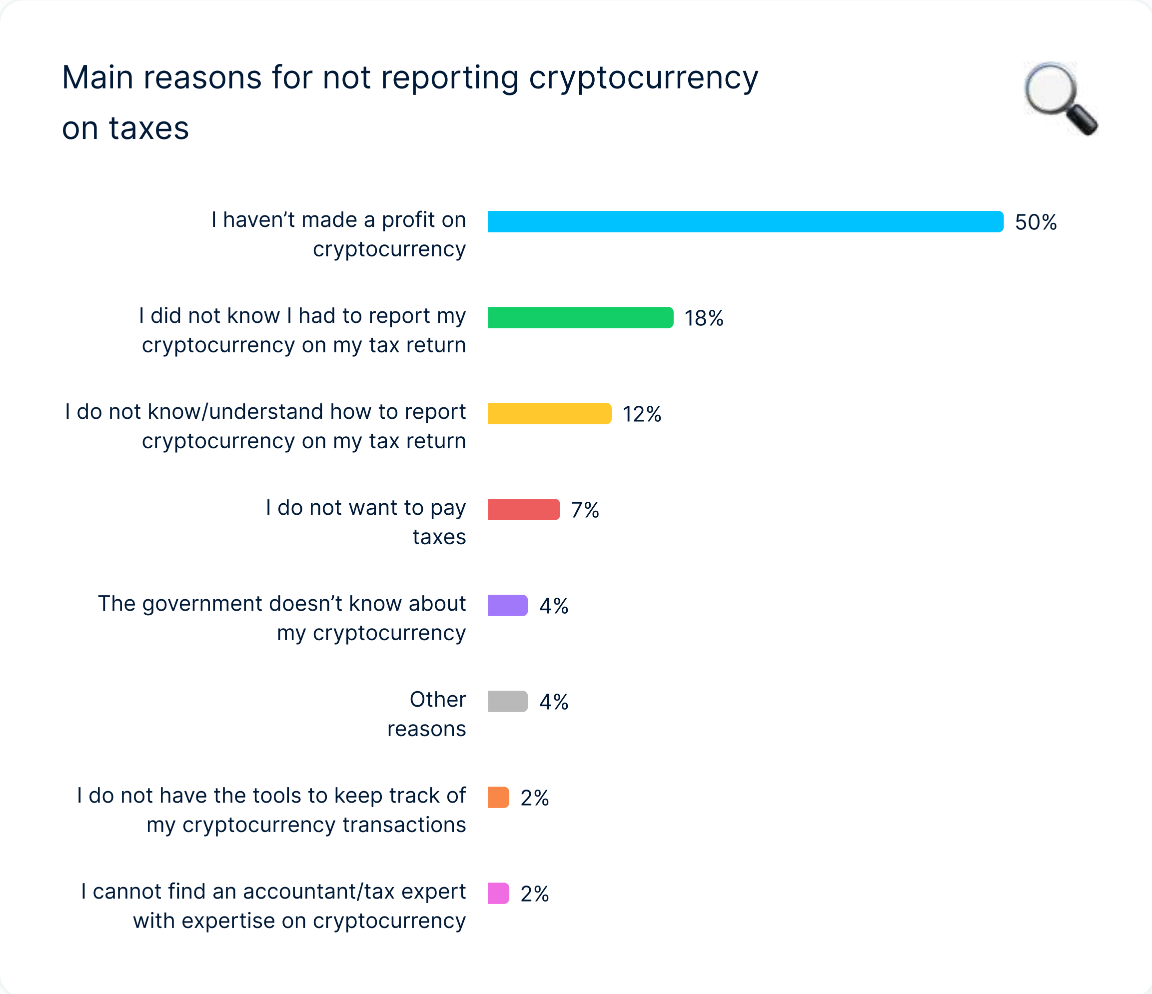
Crypto tax reporting has increased steadily as the cryptocurrency ecosystem has matured. In 2018, Credit Karma found that only 0.04% of their users were reporting cryptocurrency on their taxes, despite an estimated 5% of Americans owning cryptocurrency at the time.

31% of investors still don’t report crypto on their taxes.

While the majority of crypto investors are law-abiding, it’s clear that a large portion of crypto investors are **not** reporting crypto on their taxes.

31% of investors said that they do not report cryptocurrency on their taxes, while 11% preferred not to answer the question. In our 2022 annual report, 28% of investors said they did not report crypto on their taxes while 17% declined to answer the question.

50% of non-taxpayers don't report because they haven't made a profit on cryptocurrency.



The most popular reason why investors said they weren't reporting cryptocurrency on their taxes was 'I haven't made a profit on cryptocurrency'. This option was the primary reason why 50% of respondents didn't report crypto on their taxes.

The next most-selected option was 'I did not know I had to report cryptocurrency on my taxes' with 18%.

Why aren't cryptocurrency investors reporting losses?

One common misconception among cryptocurrency investors is that there is no need to report taxes if you haven't made a profit.

Unfortunately, this leads to investors **not** reporting cryptocurrency losses, which can actually reduce taxes.

By claiming a capital loss on cryptocurrency, investors can offset capital gains and up to $3,000 of income for the year. Any net losses can be rolled forward into future tax years.

What percent of investors are actively committing tax evasion?

Despite the perception that cryptocurrency is a haven for criminal activity, it seems that relatively few investors are investing in cryptocurrency for the specific purpose of committing tax evasion. 7% of respondents said 'I do not want to report cryptocurrency taxes' while 4% said 'The government doesn't know about my cryptocurrency.'

How does this compare with last year?

In last year's survey, the most popular reason non-taxpayers gave for not reporting crypto taxes was 'I did not know I had to report cryptocurrency on my taxes' with 50%. 'I haven't made a profit on cryptocurrency' was not an option.

The state of the cryptocurrency market is likely a major factor contributing to this shift. Last year, most crypto investors had realized or unrealized gains on cryptocurrency. This year, investors have sustained heavy losses.

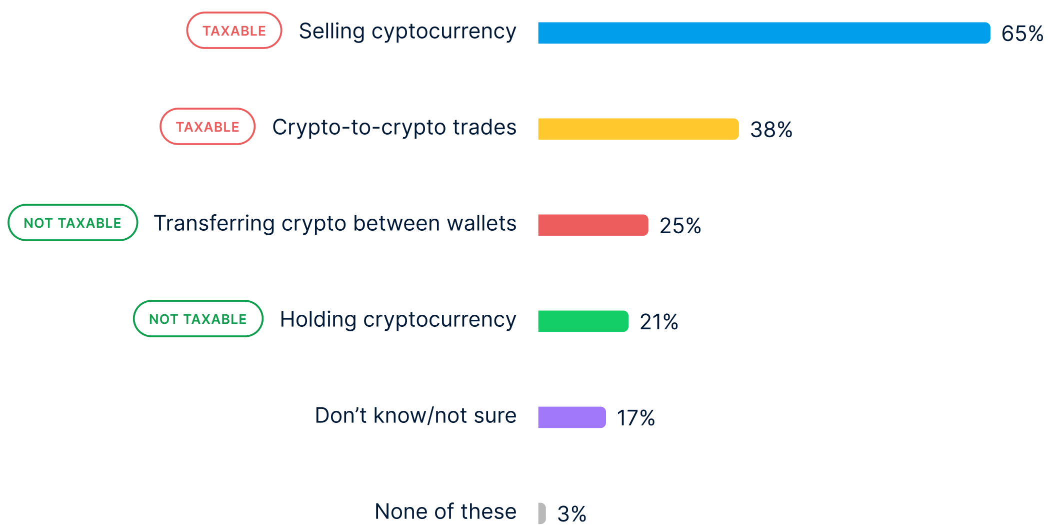
Most cryptocurrency investors don't know how their transactions are taxed.

We quizzed investors to see whether they'd be able to correctly identify taxable and non-taxable events.

'Selling cryptocurrency' and 'crypto-to-crypto trades' are considered disposals subject to capital gains tax.

Meanwhile, 'transferring crypto between wallets' and 'holding cryptocurrency' are considered non-taxable events.

To the best of your knowledge, which, if any, of the following transactions are subject to tax?



Crypto investors are unaware what constitutes a 'taxable event'.

65% of investors correctly identified that selling cryptocurrency is a taxable event.

Meanwhile, only 38% of investors correctly identified that a crypto-to-crypto trade is a taxable event.

This seems to imply that there is a large portion of crypto investors who are inaccurately reporting their cryptocurrency taxes simply because they are unaware what constitutes a 'taxable disposal'.

Crypto investors may be reporting non-taxable events to the IRS.

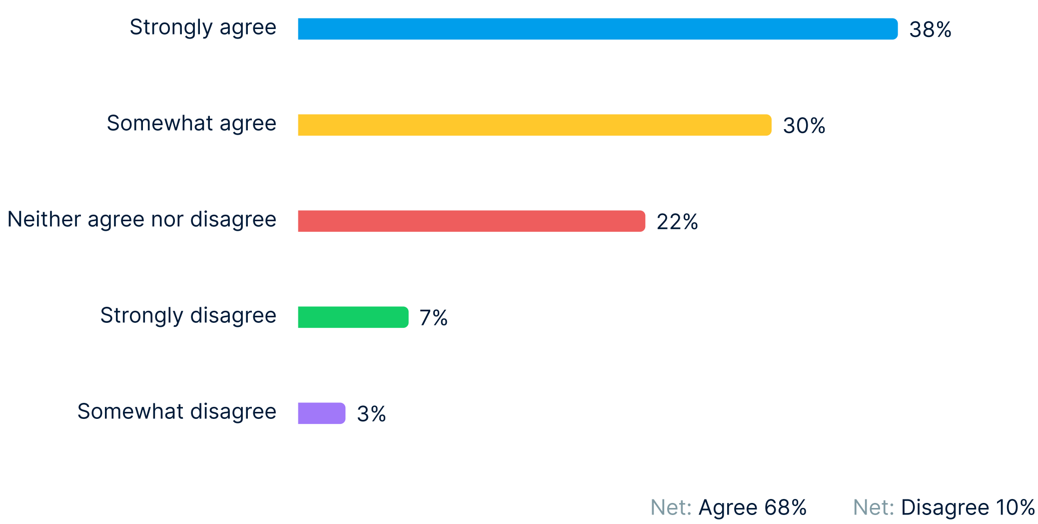
A smaller but still sizable percentage of investors incorrectly identified non-taxable events as taxable.

25% of investors said that transferring crypto between wallets was taxable, while 21% said that holding cryptocurrency was a taxable event.

It's clear that more education is necessary to help investors better understand how to accurately report their taxes. Here at CoinLedger, we've published free guides, articles, and videos to help investors better understand how to accurately report their crypto taxes.

68% of investors want more information from their exchanges.

To what extent do you agree or disagree with the following statement? I wish cryptocurrency exchanges gave me more information to help me report my taxes.



A vast majority of investors said they either ‘agree’ or ‘strongly agree’ that they want more tax information from their exchanges.

Unlike brokers like Robinhood and E*Trade, most cryptocurrency exchanges don’t send tax forms that show capital gains and losses to users.

It's possible that a lack of accurate tax forms from exchanges like Coinbase and Gemini is part of the reason why many investors feel unprepared for the tax season.

However, it's likely that tax forms will contain inaccuracies due to cryptocurrency's unique properties. Because many investors transfer their cryptocurrency between different wallets, exchanges often have trouble calculating capital gains and losses.

We'll dive deeper into the issues preventing exchanges from providing accurate tax forms in the next section.

The future of crypto tax reporting

Let's use the data discussed in the previous section to understand how crypto tax reporting may change in the future.

Will tax compliance increase as the cryptocurrency ecosystem matures?

It's likely that crypto tax reporting rates will naturally increase as the cryptocurrency ecosystem matures.

It's important to remember that the cryptocurrency ecosystem is still in its adolescence. The Bitcoin White Paper was published in 2008, while the Ethereum ICO occurred in 2014. It's likely that as time passes, investors will gain more knowledge about how their transactions are taxed and gain access to tax reporting resources.

In 2018, only 0.05% of Credit Karma's users reported cryptocurrency on their taxes. At the time, investors had trouble finding platforms specifically built for crypto tax reporting and accountants with knowledge of the crypto ecosystem.

Today, it's easier than ever to report cryptocurrency taxes. Investors can use platforms like CoinLedger to connect their wallets, import their transactions, and report their taxes in minutes. In addition, there are now multiple accounting firms around the country specifically dedicated to handling cryptocurrency taxes.

How will the 2021 infrastructure bill impact crypto tax reporting?

The 2021 Infrastructure Investment and Jobs Act laid out clear reporting requirements for cryptocurrency exchanges.

The bill stipulated that all cryptocurrency ‘brokers’ are required to issue 1099 forms for cryptocurrency disposals — similar to how stockbrokers like E*Trade and Robinhood send 1099 forms to their customers.

Originally, the crypto tax requirements of the 2021 infrastructure bill were set to go into effect during the 2023 tax year. However, regulators still have not clarified important questions — such as whether decentralized protocols like Uniswap will be considered ‘brokers’ and subject to the same requirements.

In December 2022, the IRS announced that mandated 1099 reporting would be delayed. As of this report's publication, it’s not clear when the crypto provisions of the infrastructure will be implemented.

It’s likely that this delay is related to a lack of clarity on multiple factors — such as what type of entity constitutes a ‘broker’ and how to handle cost basis in the case of a wallet-to-wallet transfer.

Will mandatory 1099 reporting lead to more tax compliance?

Since 1099 forms are sent to customers and the IRS, it’s likely that the eventual introduction of mandatory tax reporting will lead to more investors reporting cryptocurrency on their tax returns.

However, it’s important to note that 1099 reporting is unlikely to fix the tax reporting issues that most crypto investors face and may even cause more confusion during tax season.

What’s the problem with mandatory 1099 reporting?

Cryptocurrency’s unique properties make it difficult for exchanges to track cost basis and calculate capital gains.

Consider the following example.

1

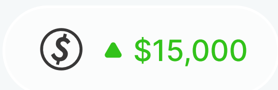
David buys $10,000 of Bitcoin on Exchange A.

2

David transfers his BTC to a cold wallet.

3

Months later, David sells his BTC on Exchange B for $15,000.



In this case, David's capital gain should be $5,000. However, Exchange B doesn't know David's original cost for acquiring his Bitcoin. As a result, his cost basis will likely be reported as 'n/a' on a Form 1099 sent by Exchange B.

If David can't prove that he originally bought his BTC for $10,000, he may be forced to recognize his entire $15,000 sale as a capital gain.

Because of problems around tracking cost basis and capital gains for wallet-to-wallet transfers, it's difficult for exchanges to provide accurate tax forms to customers.

Past attempts to overcome these tax reporting issues have been unsuccessful. Prior to 2021, exchanges like Coinbase sent Form 1099-K to users. Instead of showing capital gains and losses, these forms showed total transaction volume to avoid the issues around tracking cost basis.

Unfortunately, this approach only caused more confusion.

Because Form 1099-K does not track cost basis, the forms made it seem as though investors had significantly underreported their capital gains.

As a result, many investors who accurately filed their taxes received warning letters from the IRS showing a large unpaid tax liability.

How will Form 1099-DA change crypto tax reporting?

In August 2022, Bloomberg released a draft of a new 1099 form that was specifically designed for crypto-assets: Form 1099-DA (Digital Asset). The form is designed to collect information such as cost basis, proceeds, date of acquisition, and date of disposal for cryptocurrency and NFTs.

Form 1099-DA shows that tackling crypto tax reporting is a priority for the IRS. However, it's unlikely to solve the previously discussed crypto tax reporting issues. Form 1099-DA does not provide help for tracking cost basis and capital gains in the case of a wallet-to-wallet transfer.

Why it's unlikely that 1099 reporting will fix tax reporting issues

Because most exchanges don't send comprehensive tax forms to customers, the burden falls on investors to keep detailed records of their gains, losses, and income.

As our research highlights, many crypto investors lack knowledge on how their transactions are taxed. As a result, it's likely that even investors who report cryptocurrency transactions on their taxes are underreporting.

It's possible that mandatory 1099 reporting may help with this issue, as these forms provide a breakdown of capital gains and losses. Still, it's unlikely that these forms will be a silver bullet for investors who transfer their crypto between different wallets or interact with decentralized protocols.

How crypto tax software can help

While it’s likely that 1099 forms will cause issues for investors who’ve transferred their crypto between different wallets and exchanges, crypto tax software like CoinLedger can help.

Investors use CoinLedger to automatically import transactions from exchanges like Coinbase and blockchains like Ethereum. Once transactions have been successfully imported, CoinLedger can generate a comprehensive tax report with a complete record of capital gains, losses, and income.

Today, more than 300,000 investors across the globe use CoinLedger to keep track of their transactions across different wallets and exchanges and simplify the tax reporting process.

In conclusion

While crypto tax reporting has marginally increased in the bear market, it’s clear that a large portion of investors are not reporting cryptocurrency. Even amongst investors who are reporting their taxes, many don’t understand the tax implications of their transactions.

While mandatory crypto tax reporting for America's largest crypto brokers has been delayed, it’s unlikely that 1099 forms will solve tax reporting issues due to cryptocurrency’s unique properties.

To simplify the process of crypto tax reporting, investors all over the world are turning to crypto tax software like CoinLedger. More than 300,000 investors use our platform to import transactions and generate a comprehensive tax report in minutes.

About CoinLedger

Since 2018, CoinLedger has helped crypto investors file their taxes in minutes. Through booms and busts, hype and uncertainty, and incredible highs and lows, the CoinLedger team has remained laser-focused on helping investors track and report their cryptocurrency income.

Learn more about CoinLedger →