

IRS seeks names of virtual currency users in tax probe

December 1 2016, by Sudhin Thanawala

The IRS obtained a court order Wednesday allowing it to seek the names of people who may have failed to pay taxes on virtual currency exchanged through a San Francisco company.

The order allows the agency to issue a summons on Coinbase Inc. for the names of U.S. taxpayers who have used the company's services between 2013 and 2015. Coinbase—an online platform where people can exchange virtual currency such as bitcoin—has nearly 5 million users, according to its website. It is among the world's largest exchangers of bitcoin into U.S. dollars and has partnerships with Overstock, Dell, Expedia and other companies, prosecutors said in court documents.

An IRS agent interviewed two corporations that had accounts at Coinbase and attempted to conceal bitcoin transactions as technology expenses on their tax returns, prosecutors said in a memo supporting their request for a [court order](#).

Caroline Ciruolo, head of the Justice Department's Tax Division, said in a statement that tools such as the summons authorized by the court "send the clear message to U.S. taxpayers that whatever form of currency they use - bitcoin or traditional dollars and cents - we will work to ensure that they are fully reporting their income and paying their fair share of taxes."

Coinbase said in a statement it was concerned about its customers' legitimate privacy rights and would oppose the IRS's sweeping request in

court.

Nicholas Weaver, a computer security researcher at the International Computer Science Institute in Berkeley, California, said Wednesday's order may reflect the start of a broader effort by the IRS to go after virtual currency users. Weaver said he had not previously heard of a similar court order, although he said the IRS issued guidance recently that virtual currency is property, so any gains are taxable.

"There are plenty of stories of people who bought Bitcoin early on and cashed out," he said. "I would presume the IRS is naturally going to be suspicious that many of these people didn't properly pay taxes on their gains."

Bitcoin is an online currency that allows people to make one-to-one transactions, buy goods and services and exchange money across borders without involving banks or other third parties. Bitcoins have become popular with libertarians, technology enthusiasts and speculators.

Regulators worry about criminals using them to avoid detection.

The summons would likely turn up delinquent taxpayers because [virtual currency](#) transactions are subject to fewer third-party reporting requirements than conventional forms of payment, prosecutors said. The transactions also have a high degree of anonymity, among other factors, prosecutors said.

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