Bitcoin billionaire? Don't forget the IRS

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In this Dec. 8, 2017, file photo, coins are displayed next to a Bitcoin ATM in Hong Kong. The IRS says that cryptocurrency transactions are taxable by law. That means people who made money (or lost it) on Bitcoin trades, "mined" Ethereum or even bought a cup of coffee with digital currency face potential tax implications. Failure to report it could mean potential audits, fines and penalties. (AP Photo/Kin Cheung, File)

Cryptocurrencies like bitcoin may not be regulated by the government, but they're still subject to being taxed.

There have been various forms of digital currencies around for years, but several have taken off in popularity recently. And that may leave some newcomers to this marketplace unaware that they face taxation on their dealings.

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There are also people who may be upset to find that cryptocurrencies, which are not linked to a government or central bank, aren't as off-the-grid as they hoped. Part of their appeal is that it could be used as a new, more anonymous kind of currency that operates outside the traditional banking system and government oversight.

"There's a very strong sentiment that taxing cryptocurrency is sort of sacrilegious," said Tyson Cross, a tax attorney in Reno, Nevada who specializes in this niche. "But most people understand there is a difference between upholding a principle on an anonymous internet forum and going to jail over it."

The IRS didn't weigh in on how to tax digital currency until 2014 and that remains its only guidance to date. We spoke to a few experts to help break down the basics:

WAIT, I OWE TAXES ON THIS?

Yes, most likely.

All digital currency transactions are taxable events, according to the IRS. That includes if you sell it, trade it, "mine" it, use it to pay for something or were paid with it. Even if you sell cryptocurrency and keep the gains in your exchange account, instead of as real cash in checking account, it's still taxable.

Bought some bitcoin but still holding on to it? Relax, you don't owe any taxes yet. But any time the digital currency's value was "realized," you need to report it.

How it is taxed depends on how you used it, said Lisa Greene Lewis, a CPA and tax expert at TurboTax.

In this Dec. 8, 2017, file photo, a man uses a Bitcoin ATM in Hong Kong. The IRS says that cryptocurrency transactions are taxable by law. That means people who made money (or lost it) on Bitcoin trades, "mined" Ethereum or even bought a cup of coffee with digital currency face potential tax implications. Failure to report it could mean potential audits, fines and penalties.(AP Photo/Kin Cheung, File)

Another key thing to remember is that these digital currencies are taxed as property, instead of currency, for tax reasons. That means the same rules apply if you sell bitcoin as if you sold stocks.

WOULD THEY IRS REALLY KNOW?

True, the IRS only knows what you tell them, to a degree.

However, if they find out that you were not properly reporting the income from virtual currency transactions, you could be held liable. And experts are quick to point out that the IRS is very interested in this new frontier.

In 2016, a court authorized the IRS to summon information on Americans who engaged in business with Coinbase, a virtual currency exchange, to look for tax wrongdoing. It later narrowed its search to high-level traders, but was clear in its message that it will make sure all taxpayers are paying their share.

Omri Marian, a law professor at University of California, Irvine, called cryptocurrencies potential "super tax havens" back in 2013. He says people may still be using them to evade taxes but he is more optimistic these days, in part, because the IRS is going after this matter.

"This reminds me a lot of the Swiss bank crisis awhile back," said Cross. "People were confident (their information) wouldn't be revealed to the IRS and it worked for (years) but when Switzerland cracked, it was too late. People faced penalties and went to jail."

SO WHAT DO I DO?

Keep good records.

It's tough to figure out the value of some of these transactions. There is software out there to help you figure out your capital gains and losses for digital currencies, such as bitcoin.tax and cointracking.info. You can also seek out a tax professional or other expert who has some experience in this field.

And "be deliberate about when to make crypto trades" says Cross. It's very easy to get caught up in the next trade without realizing how it's calculated. You could be racking up considerable capital gains without realizing it.