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Here's the Tax Beat broadcast for January 15

Subject Line: You Can't Spell Crypto Without "Cry"

Americans love being first. First to finish a race. First to climb Mount Everest. First to reach the moon. First to reach a net worth of a trillion dollars. Sometimes, those firsts lead to fame and fortune. Other times, it's shame and ruin. (If the headline starts with the words "Florida man," it's usually the latter.)

On January 3, 2009, an unknown figure calling himself Satoshi Nakamoto "mined" the first Bitcoin and launched a modern-day Gold Rush. Fifteen years later, there's still no significant use case for cryptocurrency; wild price swings have failed to establish it as any sort of store of value, and a rogues' gallery of actual rogues has hijacked, rug-pulled, swindled, and scammed millions of hapless "investors" across the globe. Most famously, crypto whiz kid Sam Bankman-Fried is arbitraging cans of tinned mackerel in the same prison where Epstein didn't kill himself, while he appeals his conviction on federal fraud charges.

Yes, plenty of people have made plenty of money speculating on crypto's wild price swings. But that's exactly what it's been—speculation on a wildly volatile asset with no cash flows of any sort to establish any kind of "fundamental" value.

One of the reasons early adopters piled into the crypto sector was the promise of an anonymous economy, free from government control, government manipulations, government snooping, and government reporting. Naturally, that attracted sketchy investors who saw it as a place to do more than just make money—they saw it as a place to make *tax-free* money.
In 2014, though, the IRS issued a notice stating crypto would be treated as property. That meant capital gains and losses would be taxable like any other asset.

Nobody wanted to hear that, and crypto bros scrambled to find rationales to avoid it. At one point, for example, some argued that a trade from, say, Bitcoin to Ethereum was a nontaxable 1031 exchange. (Nice try!)

Except, of course, everything winds up on the blockchain, and most transactions go through brokers. So, it wasn't long before the IRS figured out how to track gains and losses without waiting for investors to report them. Then, they started requiring crypto exchanges to start reporting gains on Form 1099. Then, they added a checkbox to Page 1 of Form 1040 requiring taxpayers to disclose if they bought or sold any crypto assets during the year. Today, crypto is just another volatile asset class like options and futures. There's really no mystery to the tax rules.

That, in turn, brings us to this week's dubious first. The DOJ has just announced the first prison sentence of a taxpayer solely for failure to report gains from crypto sales. His name is Frank Richard Algrehn III, of Austin, TX. In 2017, 2018, and 2019, he filed false tax returns and structured various transactions to avoid tax on $3.7 million of bitcoin sales. He even wrote a blog post in 2014 on using "mixer" services to hide transactions even more effectively.

So Frank Ahlgren is ushering in 2025 with a two-year prison sentence plus $1,095,031 in restitution. As Acting Special Agent in Charge, Lucy Tan of IRS-Criminal Investigation (IRS-CI)'s Houston Field Office said, "This case marks the first criminal tax evasion prosecution centered solely on cryptocurrency. As the prices for cryptocurrency are high, so is the temptation to not pay taxes on its sale. Avoid the temptation and avoid federal prison."

The good news—for you, at least, if not Frank Ahlgren—is that there are plenty of legitimate ways to avoid, offset, or mitigate tax on your crypto gains. So call us when 2025 brings good news, and let us help you keep the most!

Kevin