

Crypto Taxes

AMA #5

A weekly report clarifying your main doubts and questions about crypto taxes in the US by a crypto expert CPA.



CoinTracking

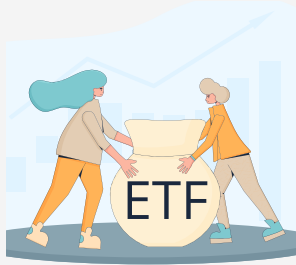
Disclaimer

The information contained on this report is provided for general information purposes only. It is not intended nor should it be used as a substitute for tax, audit, accounting, investment, legal or other professional advice on any subject matter.

Please consult your tax/financial/legal advisor before making any decision or taking any action on accounting, tax, financial, and legal related matters and issues. All answers are based on simple situations with assumptions to serve as an educational purpose.

The information provided in this report is subject to change without notice. All information on this report is provided "as is," and based on current rules, which can change at any time.

Question #1 



#1| Are my investments in Grayscale trusts (private placement) held in my IRA or brokerage account? Is after tax brokerage possible?

- In the US, it depends on whether you are using an IRA account or a regular investment account. If the asset is in an IRA account, you don't need to pay tax until you receive a distribution from the IRA.
- If the asset is in a regular investment account, you will need to pay tax on capital gain for each trade.



#2| How are my Bitcoin rewards from purchases with a crypto debit card taxed?

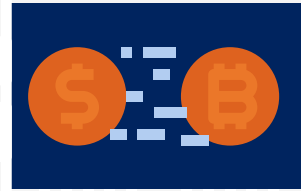
- In the US, crypto received as a reward is treated as ordinary income and is subject to income tax.
- However, rebates for debit or credit card purchases are not considered taxable income. You don't need to pay taxes on crypto debit card rebates based on your purchases. At the same time, you don't get any basis for the crypto rebates you received either. When you sell the crypto later, you need to recognize all the sales proceeds as gain.



#3| How is an NFT creator taxed for his sales? How do you report it?

- In the US, art is considered a property, and crypto is determined to be property by the IRS as well.
- If you created the crypto art for the purpose of selling it for profit, most likely you will need to treat it as sale of inventory.
- All the sales proceeds will be treated as ordinary income, as no basis is allowed for self created art and may be subject to self-employment income. You may be able to deduct expenses in creating/selling the art as a business expense and use it to offset your income.

Check our [NTE guide](#) (2021).



#4| Is buying a bagel with a crypto debit card taxable in the US? Do I have to pay capital gains taxes?

- Yes, if you buy a bagel or any other product with a crypto debit card is a taxable event in the US.
- As a reference point, you're taxed for each purchase you make with a crypto debit card. Each debit card transaction is treated as a two-step transaction:
 - (1) you sell crypto for fiat, which creates a capital gain or loss and is a taxable event;
 - (2) you use the fiat to pay for goods or services, which is usually not a taxable event.

[Learn about taxes when spending crypto for products.](#)



#5| I bought USDT for \$100 and then bought BTC with 50x leverage. What are the taxes if I sell it for a X profit?

- Yes, you need to pay capital gains tax on X, the profit from the closing of your BTC long position in the US.
- Buying USDT with \$100 is not a taxable event in the US. Moving USDT to a Futures account is also not a taxable event.
- Using USDT to go long BTC with 50X leverage is not a taxable event either. Closing the long position with a profit or loss is a taxable event in the US.

Answers by our expert CPA, Sharon Yip

Sharon has 20+ years of experience in tax and accounting at Big 4 accounting firms and Fortune 500 companies. In 2017, Sharon became a crypto investor and one of the top crypto tax experts in the United States. Sharon is the founder of Crypto Tax Advisors, LLC and the co-founder of Polygon Advisory Group LLC, the service provider for CoinTracking Full-Service (a dedicated service for US-based CT users to help them with transaction import, reconciliation, classification, tax report review, etc).



SIGN UP FOR FULL-SERVICE



Want to submit a question?

Our tax expert is happy to help you in a future edition of our weekly AMAs on Twitter for US taxpayers.

Follow us there and tweet at us your question/doubt regarding [#cryptotaxes](#).

Dm us on Twitter

