

**Alert | Blockchain & Digital Assets/  
Tax Audits, Litigation & Criminal Tax Defense**



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## **The Biden Administration Proposes New Cryptocurrency Reporting Rules**

On May 20, 2021, the Treasury Department released a [report](#) that proposes new reporting requirements for transactions, including cryptocurrency transactions. Under the proposed plan, financial institutions, payment settlement entities, and digital asset exchanges and custodians would be required to report gross inflows and outflows that exceed a de minimis threshold on all business and personal accounts.

The proposal extends to crypto asset exchanges and payment settlement entities in order to prevent taxpayers from switching from transitional financial institutions to crypto platforms in an attempt to shield account flows from the IRS.

The new reporting regime would also require businesses to file a report with the IRS when they receive a cryptocurrency payment with a fair market value of more than \$10,000. Currently, businesses are required to report currency and certain cash-equivalent payments of over \$10,000.

The proposed increase in information reporting from third parties aims to improve taxpayer compliance. Treasury's report explains that taxpayer compliance rates exceed 95% when the IRS receives third-party information reports that can be used to verify income. In contrast, when the IRS cannot use third-party information to verify income, taxpayer compliance rates are less than 50%.

According to the report, the new reporting requirements specifically address cryptocurrency and crypto asset exchanges because “[c]ryptocurrency already poses a significant detection problem by facilitating

illegal activity broadly including tax evasion.” Additionally, cryptocurrency transactions are expected to rise over the next 10 years.

Treasury’s report estimates that the new reporting requirements will become effective for tax year 2023, giving the IRS and financial institutions time to prepare.

The new compliance proposals are part of President Biden’s initiative aimed at closing the tax gap, or the difference between the amount of tax owed and the amount of tax actually paid. Treasury has calculated that the 2019 tax gap is almost \$600 billion. The tax gap is a consequence of many factors, including the limited resources of the IRS. Between the 2010 and 2021 fiscal years, the IRS’s budget decreased by 18.5%. As a result, the percent of audited returns fell by approximately 45% between 2010-2018, with audits of taxpayers with income over \$1 million declining by around 60% during the same period.

In April 2021, the president announced his proposed American Families Plan, which calls for an increase in IRS funding by \$80 billion. The president’s proposal is expected to raise \$700 billion over 10 years and shrink the tax gap by 10%. The increase in funding to the IRS would be aimed at expanding the IRS’s workforce and investing in its information technology and data analytics. The IRS estimates that every \$1 spent on tax enforcement generates \$4 in direct revenue. Under the American Families Plan, the increased enforcement will be focused on high earners; audit rates will not increase relative to recent years for taxpayers with income of less than \$400,000.

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