

Alert | Tax Audits, Litigation & Criminal Tax Defense



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IRS Targets Customers of Cryptocurrency Prime Dealer SFOX in Latest John Doe Summons

On Aug. 15, 2022, a federal court in the Central District of California authorized the Internal Revenue Service (IRS) to serve a John Doe summons on OX Labs Inc. d/b/a SFOX and its subsidiaries (collectively, SFOX). SFOX is a cryptocurrency prime dealer for professional traders and institutional investors and has over 175,000 registered users.

The John Doe summons seeks information from SFOX regarding U.S. taxpayers who conducted transactions in cryptocurrency totaling at least \$20,000 in any one year during the years 2016 to 2021. The IRS will use this information in its investigation of taxpayers who have failed or potentially failed to comply with U.S. tax laws regarding taxable income from cryptocurrency transactions.

Concurrent with its request in the Central District of California, the IRS filed a petition in the Southern District of New York for authorization to serve a John Doe summons on M.Y. Safra Bank, FSB (M.Y. Safra). M.Y. Safra partnered with SFOX in 2019 to offer cash deposit accounts to SFOX users.

In the past few years, the IRS has relied on John Doe summonses to obtain information regarding U.S. taxpayers who have used cryptocurrency. In 2021, the IRS received authorization to serve John Doe summonses on two cryptocurrency exchanges and in 2017, a federal court ordered the enforcement of a John Doe summons issued to another crypto exchange. IRS Commissioner Chuck Rettig has stressed the IRS's continued use of John Doe summonses to investigate tax noncompliance, stating, "The John Doe

summons remains a highly valuable enforcement tool that the U.S. government will use again and again to catch tax cheats and this is yet one more example of that.”

In light of this emerging approach by the IRS, taxpayers who have done cryptocurrency transactions may want to confirm or take steps to assure that they are in compliance with U.S. tax laws.

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