Crypto Tax Bills to Watch out for in 2022

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If you're one of the millions of people who bought cryptocurrencies for the first time, you may be surprised when it comes time to pay your crypto taxes.

Cryptocurrencies may have started out as a cautious decentralized economy, but now that the nearly $2 trillion industry has gone mainstream enough to take up coveted Super Bowl ad space, the Internal Revenue Service (IRS) is well aware of it.

The IRS classifies cryptocurrency as intangible property for tax purposes, which means the profits you make from selling virtual currency are subject to capital gains taxes. This holds true whether you bought bitcoin or altcoins on a crypto exchange like BTCC, or simply used an app like PayPal to buy and use cryptocurrency.

It's at the forefront of tax professionals' minds this year: TurboTax now asks upfront when beginning your 2021 tax return whether or not you traded crypto last year. And if you do your taxes on paper with the help of a certified public accountant (CPA), you should at least be prepared to tell them your 2021 crypto earnings. (This is easier when you plug your wallet into a crypto portfolio tracking app that can calculate your capital gains and losses in minutes.)

But what exactly does the IRS consider to be "earnings" when it comes to crypto – and what triggers a taxable event? Let's take a look at how the IRS classifies the following scenarios.

Crypto Taxes on These Surprising Things in 2022

Did you get gifted an NFT, buy everyday goods with crypto or earn enough crypto to push you into a new tax bracket? Here are some common "surprise" crypto taxes and how experts suggest you stay prepared.

Airdrops or Gifted Crypto

Crypto was a popular present last year. According to a BlockFi survey, one in 10 people gave crypto as a holiday gift.

However exciting crypto may be, if you gave it as a gift, you should be aware of IRS rules on gifting. There's a $15,000 gift threshold for 2021, meaning the giver doesn't have to pay taxes on the gift as long as it's worth $14,999 or less. If the value of the gift is over $15,000, the tax burden falls on the generous donor, who must file IRS form 709.

"If my parents give me $10,000 in bitcoin, that's not taxable income for me," said David Kemmerer, CEO and co-founder of CoinLedger, a crypto tax reporting software.

But there are some nuances. If you are given crypto and it gains value and you experience a capital gain when you sell it (either for U.S. dollars or a different cryptocurrency), you'll be required to pay capital gains taxes on the amount you profited – not the entire amount you sold it for.

Capital gains taxes are also calculated based on your income and how long you held the asset before selling. (Learn more about how the IRS calculates capital gains taxes.)

Non-fungible Tokens (NFTs)

Anyone on social media has likely heard of non-fungible tokens (NFTs) by now, but few know how they are taxed.

The IRS has yet to release definitive guidance on NFTs, but it's worth noting that British tax authorities recently made the country's first seizure of NFTs during a fraud investigation and tax crackdown. Of course, U.S. citizens can't look to other countries for precise tax guidance, but it's becoming clearer each day that consumers shouldn't try to sweep NFT purchases and trades under the rug.

Until the IRS issues more nuanced guidance, tax professionals advise treating NFTs as virtual assets just like any other crypto. There are three things to watch out for here:

1.The $15,000 gift threshold for NFTs: Gifting and/or airdropping NFTs is not taxable as long as the value is under $15,000. Some of the more expensive NFTs are currently valued at higher than that, with famous NFTs like Bored Apes starting at six figures. If you're giving someone a five-figure piece of digital art over the $15,000 threshold, be prepared to fill out Form 709 and pay gift taxes.

2.Capital gains taxes apply when you sell NFTs: Selling your NFT for fiat currency, cryptocurrency or another NFT is a taxable event. You'll be taxed on the income you make, calculated by subtracting your cost basis from the gross proceeds you get from selling. Capital gains taxes range from 0% to 20%, depending on your income and how long you held the assets.

3.Buying NFTs is also usually a taxable event: Because NFTs are almost always bought or sold in crypto, there are multiple transactions between fiat and cryptocurrencies that result in capital gains or losses. Purchasing an NFT is therefore commonly a taxable event – even if you don't sell it for a profit.

One last possibility is that the IRS could classify NFTs as collectibles – similar to stamps, antiques or trading cards. If they were to do this, the capital gains taxes would be slightly higher than normal, at a rate of 28%. For now, most CPAs suggest sticking to normal capital gains laws, though that could always change.

Game Reward Tokens

A growing number of people worldwide are making an additional income via play-to-earn video games that reward players with decentralized finance (DeFi) tokens that can hold real-world value and can be exchanged for either crypto or fiat (government) currencies.

While this new source of cash has benefited many, the crypto earned within these online games is not exempt from taxes.

"Reward tokens will fall into a similar taxable bucket to staking rewards," said Kate Waltman, a CPA who focuses on cryptocurrency and digital assets. "Staking" is an advanced DeFi process that lets traders earn passive income on their crypto in exchange for letting the blockchain lock it for a period of time (usually months). All gamers aren't necessarily well-versed in DeFi, so it's important they are aware of how the IRS will tax their crypto earnings.

"Those rewards are going to be taxable, versus playing traditional video games where you may earn rewards in the game, but they are only usable inside the game," Waltman said. "The tricky piece here isn't so much knowing that it's taxable, but rather knowing how we value those tokens?"

According to Waltman, the IRS hasn't offered concrete regulation yet with respect to these details. "I think a lot of people have been playing video games and earning crypto reward tokens and may not realize they actually hold value," she said.

Higher Tax Rates

A lot of people made money on crypto last year, according to Waltman. Some, therefore, broke the $200,000 adjusted gross income (AGI) threshold for the first time – and may have higher taxes than normal.

In this case, new high-income earners will need to pay the Net Investment Income Tax (NIIT), a 3.8% tax that's added onto your capital gains, dividends and royalty income.

"If you're an individual and your modified adjusted gross income exceeds $200,000, then you trigger this Net Investment Income Tax on top of your normal capital gains tax that you're already paying on," said Waltman.

The income threshold jumps up to $250,000 for people who are married filing jointly, and down to $125,000 for those married filing separately.

Buying Everyday Items with Crypto

Buying goods and services with crypto – even small purchases like buying a coffee – might trigger a taxable event in the eyes of the IRS.

Here's why: Paying for everyday items involves exchanging a digital currency (e.g. bitcoin, ethereum, dogecoin, etc.) for fiat currency (e.g. the U.S. dollar). Prepaid crypto debit cards and crypto credit cards make this process so seamless it may not seem like it's worth telling the IRS. However, small transactions throughout the year can add up to a significant sum. Those who buy everyday goods and services with crypto should therefore keep good records.

This brings us to our next point …

Crypto Debit And Credit Cards with Rewards

"So these are really interesting," said Waltman. "From a tax perspective, it's kind of complex."

Popular crypto debit and credit cards like the Gemini Mastercard and the BlockFi bitcoin rewards card have made it easy to buy items in the store using crypto. In addition, users can earn crypto rewards, such as 3% back in bitcoin on spending.

These cards can either simplify IRS crypto reporting or, in other cases, open them up to even more taxable events with their crypto.

Rewards generally aren't taxable, noted Waltman, and are treated just like credit card points and airline miles you earn after meeting certain spending conditions. Consumers who use debit cards that allow them to spend in U.S. dollars but earn in crypto don't have to report their rewards until they exchange them for fiat or another cryptocurrency via a purchase or on an exchange.

"That's a really interesting way to start accumulating and acquiring crypto without it being taxable income to you right away," Waltman said.

However, if your crypto rewards card is a prepaid card and you're actually paying with your crypto balance each time you swipe it, the transactions that occur behind the scenes require IRS reporting.

"Bitpay, for example, allows you to pay with your crypto," said Waltman. "When you swipe the card it very quickly and simultaneously makes a conversion for you from bitcoin to fiat. That exchange will have capital gains."

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