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How Not to Panic If Coinbase is Turning Over Your Info to the IRS



Coinbase recently notified [approximately 13,000 of its customers that it was turning their information over to the United States](#). Coinbase has told those affected that it would be providing their taxpayer ID (social security number), name, birth date, address and transaction records from 2013-2015 to the Internal Revenue Service (IRS), by March 16, 2018.

So what should you do if you received one of these letters? Coinbase advises recipients to contact a tax attorney. Sounds good, but also pretty boring.

If you're feeling up to it, you might also consider first, panicking, and then employing one of a number of "creative" approaches designed to make the problem go away entirely. Here's a handy guide to a few such ill-conceived approaches, all based on recent Tax prosecutions of Department of Justice (DOJ):

- Transfer assets and financial accounts into a relative or friend's name, so that the IRS can't reach them. This is what Tennessee Dentist Andrea Polk [unsuccessfully tried to do](#), after being assessed with \$160,000 in payroll taxes and \$113,781 in income taxes. What could (and probably should) have been a simple case with IRS Collections turned into a criminal ordeal, a three-year prison sentence, and a court order for Ms. Polk to pay more than \$650,000 to the IRS.
- File false returns and lie to IRS agents. This is what Colorado businessman Sergio Murillo tried to do, [according to DOJ's indictment](#). He allegedly had clients write checks to him and deposited them into his personal account, rather than the business account. Then he allegedly filed false tax returns and, importantly, lied to IRS agents about the accounts. The amounts understated each year were relatively small compared to other federal tax offenders, and never amounted to more than \$100,000. One has to wonder whether he would have faced criminal charges if he hadn't lied to the agents.
- Create fake documents to give the IRS in an audit. This is, remarkably, what Tax Court Judge Diane Kroupa tried to do, [according to a DOJ indictment](#). She and her husband were allegedly trying to mislead the agent into thinking that personal expenses were actually business expenses. Perhaps if Judge Kroupa hadn't been a sitting federal Tax Court judge, and perhaps if they hadn't tried to mislead the auditors, it wouldn't have ended up being a criminal case. But hey, it pays to try, right?

As these cases show, some taxpayers panic and make their (likely manageable) IRS problems much, much worse. Panicking in the face of a possible IRS investigation is without a doubt understandable. Nobody wants to deal with an IRS Agent asking probing questions, especially if you have made reporting mistakes in the past. But it's often worth taking a step back, taking a deep breath, and carefully evaluating your options.

It's also important to remember that IRS employees are people too. Now, that doesn't mean you have to love them or want them to succeed in collecting the most taxes they can. But it should mean that you think of how to approach them strategically, given that they are human and can be expected to have certain normal human responses.

Let's say an IRS Agent has a couple dozen case files, all with a range of crypto tax problems, as well as a variety of compliance histories. Which taxpayer do you think they are going to refer for criminal prosecution? The one whose tax returns had the biggest adjustments in dollar terms? Or the taxpayer who was rude to them, who lied to them,

and then who refused to cooperate in the investigation? Fair or not, all too often it's the little things that make the difference, especially when emotions are running high.

So the Coinbase advice to consult with a qualified attorney is probably a good start if you received the letter (or if you know you have crypto tax compliance issues to clean up otherwise). But beyond that, staying calm and thinking clearly is essential. Crypto tax problems are inevitably going to lead to some hefty fines, and some people will be prosecuted. For most people, though, the problems can be carefully and responsibly managed. Be careful out there.

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