

## Paying your Swiss tax bill with Bitcoin? Be prepared for the US tax implications

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4 min read



Cryptocurrencies are more popular than ever, and as the year comes to a close it may be a good time to review your digital portfolio.

[Canton Zug](#) has been accepting Bitcoin for government services since 2016, but only up to 200 CHF. Starting February 2021, Zug will allow companies and individuals to use Bitcoin or Ether for payments up to CHF 100,000. Other towns in Switzerland, including Choasso and Zermatt, are following the lead of Canton Zug and also accepting Bitcoin.

While Switzerland is embracing virtual currencies, the Internal Revenue Service (IRS) is taking notice. Back in 2014 the [IRS](#) ruled that Bitcoin and other “convertible virtual currencies” are treated as property, not currency. This means every time a virtual currency is bought or sold, it triggers tax consequences, much like buying or selling a stock. Four key things happen when you dispose of your virtual currency:

1. Income or loss from any sale or exchange
2. Gain or loss is measured by the change in the dollar value between the cost basis/purchase price and the gross proceeds received from the disposition/selling price
3. The tax rate applies on how long you held the currency (a year or less = [short-term](#), more than a year = [long-term](#))
4. Disposition is reported on your US tax return using [Schedule D](#), Form 8949 or Form 4797

Example: You purchased 1 Bitcoin when it first became available in March 2009 for \$0.003. In November 2020 you decide to use your 1 Bitcoin to pay for government services or taxes in Zermatt, Switzerland. You pay Zermatt your 1 Bitcoin (now worth \$19,350). When you file your US tax return you will need to report a [long-term capital gain](#) of \$19,350, which will be taxed at a rate between 0% - 20%.

In 2019 the IRS began asking all individual filers if they received, sold, sent, exchanged, or acquired any virtual currency. The IRS has also begun to send out thousands of letters to taxpayers who have potentially failed to report cryptocurrency income and pay US taxes. While cryptocurrencies are seen as being immune to government interference, the IRS is certainly doing its best to subpoena information and catch those who may have failed to report their transactions.

Take these steps to avoid getting into trouble with the IRS:

1. Track all your cryptocurrency transactions, including:
  - a. Original purchase price + any purchasing fees (this is your cost basis)
  - b. The date of purchase
  - c. Date of sale
  - d. Sales price
2. Report all your annual cryptocurrency transactions on your US tax return
3. If you receive a letter from the IRS, speak with your tax professional to amend or file any outstanding returns

Coinbase has responded by issuing Form 1099s to eligible US users. This helps alleviate the individuals tracking obligations while ensuring IRS compliance (and taxation). Many smaller virtual currencies are not providing tracking or reporting, so it will remain the taxpayer's responsibility to track this information.

If you are considering selling any cryptocurrency before the end of the year, consider these strategies:

1. Consider your [2020 tax bracket](#), do you expect it to be higher or lower in 2021? A lower tax rate in 2020, means less tax due to the IRS.
2. If you are a US citizen selling cryptocurrency as a resident of Switzerland, you will only be subject to US taxation. Switzerland does not tax capital gains. If you are selling as a US resident, you may also be subject to state taxation.

3. Donating cryptocurrency to an [IRS qualified organization](#) will allow the taxpayer to receive up to a 30% deduction. Example: Taxpayer donates \$10,000 of cryptocurrency, that has a \$0 tax basis. If the taxpayer is itemizing their return, they will be able to take a \$3,000 tax deduction on this gift.

Like any aspect of your investment portfolio, you should check in on a regular basis and evaluate if virtual currency holdings are in line with your overall portfolio and investment goals. Virtual currency is historically very volatile with the possibility of very large losses (or gains) in a short period of time and should be part of a diversified portfolio to mitigate risk.

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