



**CryptoTaxAudit**

The Crypto Tax & IRS Audit Experts

Special Report

# How Crypto Owners Can Protect Themselves from the New IRS

By Clinton Donnelly  
CEO of CryptoTaxAudit and IRS Guard Dog  
@CryptoTaxFixer

September 25, 2023

*Crypto investors are facing a new, aggressive IRS in 2024. All traders need to read this special report. The future may be scary, but if you follow our recommendations, you can find greater safety.*

## Key Takeaways:

- **Crypto Tax Audits:** Taxpayers are apprehensive about crypto tax audits due to their intricate nature, requiring detailed financial records and strict adherence to reporting requirements.
- **Statute of Limitations:** The IRS generally has three years to assess additional taxes after a return is filed, but this can extend in cases of significant under-reporting or fraud.
- **Crypto Reporting Pitfalls:** Many crypto traders are unaware of or neglect their tax obligations, leading to potential civil penalties. Those who intentionally evade taxes could face criminal penalties.
- **IRS Modernization:** Recent funding boosts and technological advancements, such as artificial intelligence, are equipping the IRS to better track and audit crypto transactions.
- **Potential Audit Triggers:** With tools like Palantir and new reporting forms like the 1099-DA, the IRS has enhanced capabilities to detect unreported crypto income.
- **Protecting Yourself:** Traders should proactively monitor their IRS accounts, ensure accurate and timely tax filings, back up all transaction records, and consider professional services like IRS Guard Dog for added protection against potential audits.

# Contents

<b>Part 1: Why are tax audits scary?</b>	<b><u>4</u></b>
How far back can the IRS audit you?	<u>4</u>
Why do crypto traders have huge audit risks?	<u>4</u>
<b>Part 2: How did the IRS get into trouble?</b>	<b><u>5</u></b>
How did the IRS shoot themselves in the foot?	<u>6</u>
What is new about the IRS?	<u>7</u>
How will the new IRS change its approach to auditing crypto investors?	<u>8</u>
How does the IRS discover trader's transaction records?	<u>8</u>
How will the IRS leverage artificial intelligence?	<u>9</u>
What does this mean for the crypto trader?	<u>9</u>
What are my chances of an audit?	<u>10</u>
Wait! Did the IRS say they would only increase audit rates on the rich?	<u>10</u>
Is there a better way for traders to protect themselves?	<u>11</u>
Will the IRS use more criminal enforcement?	<u>11</u>
How does the spillover effect amplify the IRS's reputation?	<u>11</u>
<b>Part 3: How can crypto investors protect themselves?</b>	<b><u>12</u></b>
How can you get into compliance, according to the IRS?	<u>12</u>
How do you get in compliance using a transition strategy?	<u>13</u>
Step 1: Proactive IRS monitoring	<u>13</u>
Step 2: File the latest year's return and pay the taxes	<u>13</u>
Step 3: Be prepared to file a past return quickly	<u>14</u>
Step 4. Have an IRS audit strategy	<u>14</u>
Step 5. Backup all your transaction records	<u>14</u>
<b>Summary</b>	<b><u>15</u></b>

## Part 1: Why are crypto tax audits scary?

Audits of crypto income evoke fear and terror because taxpayers don't know what to expect—the average audit takes about 15 months. The audit process is intricate, often demanding detailed financial records and adherence to specific reporting requirements. If you challenge the auditor's assessment, an appeal to the U.S. Tax Court, often necessary, can take another two years to resolve. The fear of an audit's results causes financial anxiety, marital strife, divorce, employment issues, and prolonged health effects from stress.

### How far back can the IRS audit you?

The statutes of limitation provide some comfort. After the return is filed, the IRS has only three years to assess additional taxes. They get six years to assess if you under-report your income by 25%. If they can assert the taxpayer intentionally falsified the tax return (fraud), there is no statute of limitation protection. With an increased focus on digital assets, it is expected the IRS will send many warning letters to notify taxpayers about potential discrepancies over the next few years.

### Why do crypto traders have huge audit risks?

The IRS states that 75% of crypto traders do not report their crypto taxes.<sup>1</sup> For many, this non-compliance might initially result in civil penalties due to negligence or unawareness of reporting requirements. Civil penalties are typically monetary and do not involve jail time. However, if the IRS detects intentional evasion or fraudulent actions, traders could face more severe criminal penalties, which include substantial fines and potential imprisonment. It's a delicate balance, and the distinction between civil and criminal often hinges on the intent and severity of the violation. Many crypto investors might be navigating a gray area, unaware of their tax obligations or unsure how to report, making them susceptible to these penalties.

I've talked to thousands of taxpayers about their crypto tax reporting. It's a familiar story. Most crypto investors had little investing experience before buying cryptocurrencies. The first year, they don't report their gains (called capital gains) because they didn't know they had to or didn't know how. They become vaguely aware of their tax obligations in the second year, but they become paralyzed because they didn't report the prior year. So, another year of non-reporting occurs. This logic continues each year. Soon, they realize they owe a mountain in taxes they could never pay. They never planned to be criminal tax evaders. Now, with the complicated reporting requirements and the looming presence of the audit examiner, they don't know how to become compliant again safely.

---

<sup>1</sup>IRS announces sweeping effort to restore fairness to tax system with Inflation Reduction Act funding; new compliance efforts focused on increasing scrutiny on high-income, partnerships, corporations and promoters abusing tax rules on the books", Internal Revenue Service, IR-2023-166, 8 Sept. 2023 < <https://www.irs.gov/newsroom/irs-announces-sweeping-effort-to-restore-fairness-to-tax-system-with-inflation-reduction-act-funding-new-compliance-efforts>> accessed 23 Sep 2023.

Even investors who tried their best to report the crypt income are at risk of a cryptocurrency audit because calculating crypto gains and losses is highly complicated, with a significant chance of being way off.

If these scenarios are like yours, don't panic. In the next section, we'll examine how the IRS is changing and how that will affect us. In the final section, we'll look at effective strategies to stop hiding and getting back into compliance.

## **Part 2: How did the IRS get into trouble?**

The IRS in 2023 is much diminished from ten years before. The average IRS employee is two years away from retirement age. The agency's budget is almost 20% less than ten years ago. The number of audits is a fifth of the volume ten years ago. The IRS's computer systems are the oldest in the US Government. The central data files are still based on data structures from the 1960s. Both their systems and their employees are dinosaurs, rhetorically speaking.

### **How did the IRS shoot themselves in the foot?**

The deep state bureaucracy at the IRS chose to weaponize itself against conservative voices in U.S. politics between 2004 and 2013.<sup>2 3</sup> This is called the IRS Targeting Controversy.<sup>4</sup> In 2017, the US Government conceded losses in two lawsuits by conservative groups against the IRS, resulting in significant financial settlements.

The Justice Department quoted the attorney general as saying of the IRS activity: "There is no excuse for this conduct. Hundreds of organisations were affected by

---

<sup>2</sup> Rappeport, Alan, "In Targeting Political Groups, I.R.S. Crossed Party Lines", The New York Times, 5 Oct 2017, < <https://www.nytimes.com/2017/10/05/us/politics/irs-targeting-tea-party-liberals-democrats.html>>

<sup>3</sup> Treasury Inspector General for Tax Administration, "Review of Selected Criteria Used to Identify Tax-Exempt Applications for Review", Department of the Treasury, 28 Sep 2017.

<sup>4</sup> "IRS Targeting Controversy", Wikipedia.com, [https://en.wikipedia.org/wiki/IRS\\_targeting\\_controversy#cite\\_note-NYT-171005-1](https://en.wikipedia.org/wiki/IRS_targeting_controversy#cite_note-NYT-171005-1)

these actions, and they deserve an apology from the IRS. We hope that today's settlement makes clear that this abuse of power will not be tolerated."<sup>5</sup> Due to the recalcitrance of IRS management,<sup>6</sup> the Republican Congress started slashing the budget of the IRS year after year, beginning in 2012.

By 2022, the IRS was almost broken – teetering on the edge of systemic failure.

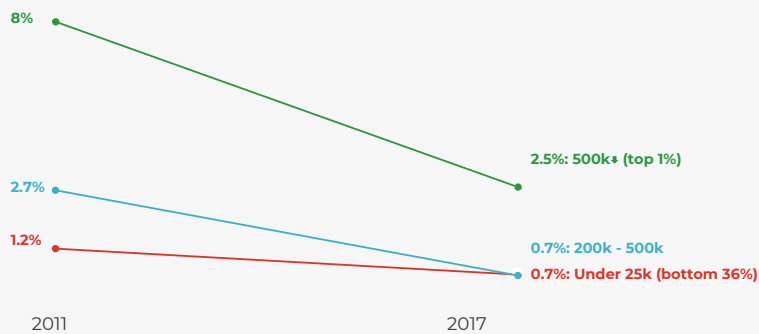
- The IRS only answered 13% of all phone calls and only after an average of 29 minutes of being on hold.<sup>7</sup>
- The number of auditors (Revenue Agents) dropped 41%.<sup>8</sup>

The number of audits conducted dropped 42% over the prior ten years.

By 2022, the IRS was almost broken – teetering on the edge of systemic failure.

- The IRS only answered 13% of all phone calls and only after an average of 29 minutes of being on hold.
- The number of auditors (Revenue Agents) dropped 41%.
- The number of audits conducted dropped 42% over the prior ten years.<sup>9</sup>

**Audits of the Rich Have Dropped Much Faster Than Audits of the Poor**



**Note:** The audit rate for taxpayers with income between \$25,000 and \$200,000 (the only group not included above) dropped from 0.81 percent in 2011 to 0.48 percent in 2017.

**Source:** ProPublica analysis of IRS data

10

<sup>5</sup> Peter Overby, "IRS Apologizes For Aggressive Scrutiny Of Conservative Groups", 27 Oct 2017 <https://www.npr.org/2017/10/27/560308997/irs-apologizes-for-aggressive-scrutiny-of-conservative-groups>

<sup>6</sup> Andy Kroll, "The IRS Tea Party Scandal, Explained", Mother Jones, 21 Nov 2013 <https://www.motherjones.com/politics/2013/11/irs-tea-party-scandal-congress-nonprofit-obama>

<sup>7</sup> Erin Collins, "National Taxpayer Advocate Annual Report to Congress 2022" 31 Dec 2022 <https://www.taxpayeradvocate.irs.gov/reports/2022-annual-report-to-congress/full-report/>

<sup>8</sup> "Internal Revenue Service 2022 Data Book" <https://www.irs.gov/statistics/soi-tax-stats-irs-data-book>

<sup>9</sup> "Internal Revenue Service 2010 Data Book" <https://www.irs.gov/pub/irs-soi/10databk.pdf>

<sup>10</sup> Paul Kiel and Jesse Eisinger, "How the IRS Was Gutted", The Atlantic & ProPublica, 22 Dec 2018, <https://www.propublica.org/article/how-the-irs-was-gutted>

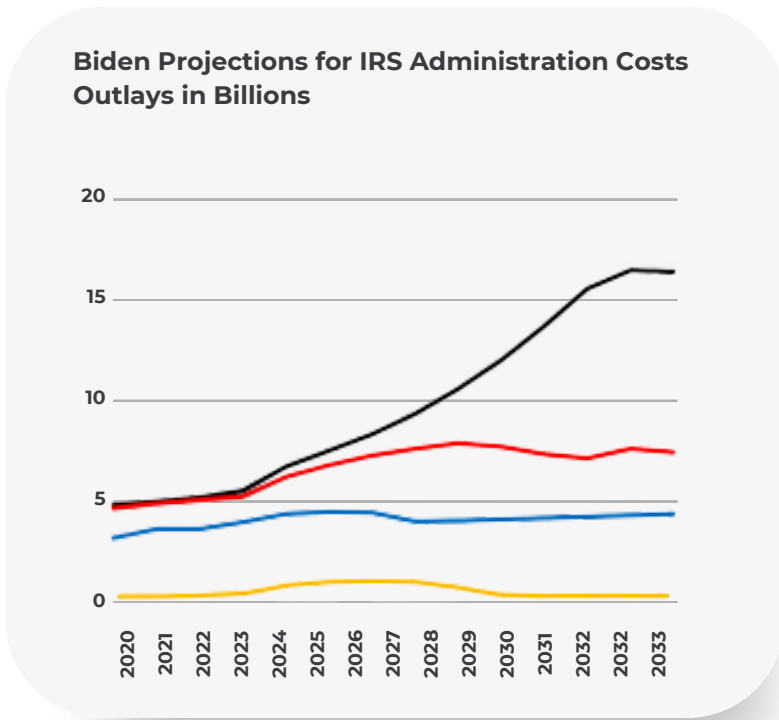
If you ever thought, “Where’s the IRS? They’re not going to bother me.” Those days are over.

Like a phoenix, the IRS is back. It will be bigger and more effective than ever. They will be in your face if they suspect non-compliance.

**What is new about the IRS?**

On August 18, 2022, the Inflation Reduction Act was signed into law, which gave the IRS \$80 billion in extra funding to increase enforcement (audits) and modernize systems.

Don’t think of this as a temporary funding increase. A modernized IRS will require higher baseline funding in future years, almost three times larger than in 2021.



11

On September 8, 2023, the IRS announced a “sweeping, historic effort...shifting more attention onto high-income earners...abusing the nation's tax laws.” They intend to “center on adding more attention on...high-income earners that have seen sharp drops in audit rates... during the past decade.”<sup>12</sup>

These statements should concern all crypto investors, especially those non-compliant.

<sup>11</sup> Erin Collins, “National Taxpayer Advocate Annual Report to Congress 2022” 31 Dec 2022 <https://www.taxpayeradvocate.irs.gov/reports/2022-annual-report-to-congress/full-report/>

<sup>12</sup> “Internal Revenue Service 2022 Data Book” <https://www.irs.gov/statistics/soi-tax-stats-irs-data-book>

The additional funding will enable the IRS to “expand efforts involving digital assets.”<sup>13</sup>

### **How will the new IRS change its approach to auditing crypto investors?**

The new funding includes hiring 87,000 more employees – effectively doubling the headcount. Think doubling the number of auditors, lawyers, and criminal investigators.

Training competent auditors will take many months. One consequence is that the length of the average audit is expected to extend from 15 months to 24.<sup>14</sup> This will cause defending against an audit to be more grueling, frustrating, and expensive. At the same time, individual audit rates are expected to more than double from current audit rates.

### **How does the IRS discover trader’s virtual currency transaction records?**

The IRS announced it would use Artificial Intelligence techniques to identify non-compliant high-income taxpayers.

Traditionally, the IRS has depended on W-2, 1099, and K-1 forms to discover unreported income. New proposed regulations issued in August 2023 mandate a new crypto reporting form called a 1099-DA to collect better crypto income information.

The IRS is obtaining additional information from digital currency exchanges using John Doe summons. This type of summons allows the IRS to use the courts to demand taxpayer identity and virtual currency transaction histories from 2016.

*Our office recently defended a trader being audited because he used LocalBitcoin (a P2P exchange) to trade. This information could only have been obtained from a John Doe summons.*

The IRS also obtains crypto transaction information by sharing data with other governments called the J5 initiative (US, UK, Australia, Canada, Netherlands).<sup>15</sup> The astute will notice how these five governments have aggressively filed diverse legal actions against Binance and CZ. The expectation is that at some point, Binance, the largest crypto exchange, will surrender all its user identity and transaction information, which would be a treasure trove of information.

<sup>13</sup> “IRS announces sweeping effort to restore fairness...”

<sup>14</sup> Phil Swagel, “The Effects of Increased Funding for the IRS”, Congressional Budget Office, 2 Sep 2021, <https://www.cbo.gov/publication/57444>

<sup>15</sup> IRS, “Joint Chiefs of Global Tax Enforcement” <https://www.irs.gov/compliance/joint-chiefs-of-global-tax-enforcement>



Even for investors who protect their crypto activity behind blockchain-native applications, such as digital asset wallets and only transact in decentralized finance (DeFi) applications without Know-Your-Customer (KYC), any transactions with centralized exchanges, such as transferring crypto to or from the exchange, will provide the IRS with key blockchain addresses from which they can leverage on forensic tools to obtain all of your other blockchain addresses and see your cryptocurrency transactions. Attempting to hide crypto investments by relying on public, permissionless blockchains is playing with fire.

### **How will the IRS leverage artificial intelligence?**

In 2019, the IRS signed a \$99 million deal to employ Palantir technology to mine diverse data sources to find tax cheats. Palantir technology will be applied to digital assets non-compliance.

*This company, Palantir, has incredible access to your personal records and actions. This includes text messages and criminal histories. The technology will enable both monitoring of transactions and physical location, but also the ability to compare a taken tax deduction to social media posts. The implications go well beyond comparing your W2 to your tax filing. The IRS stated in 2018 that it plans to use its AI monitoring of social media only for “previously identified tax compliance cases,” but the government doesn’t shrink once it has an appetite. One member of Congress called it the “ultimate auditor.”<sup>16</sup>*

Palantir technology will hopefully reduce audits of compliant taxpayers, which result in “no change.”

In June 2023, the IRS solicited proposals for innovative solutions to aggregate trading information about taxpayers computing the tax consequences and trading patterns.<sup>17</sup> This technology could allow the IRS to assess better a taxpayer's total positive income from all trading activity, U.S. and foreign.

### **What does this mean for the crypto trader?**

If you are a crypto trader in the U.S., assume the IRS knows who you are and how large a trader you are. Assume that they have cross-checked against your tax return to see if taxable income is reported from your investments in crypto assets. But time is on the IRS’ side. The fact that they haven’t audited all non-compliant crypto owners is more about limited resources than lack of knowledge.

<sup>16</sup> Kristin Tate, “Coming soon: IRS on Big Tech steroids”, The Hill, 1 Feb 2023 <https://thehill.com/opinion/finance/3832574-coming-soon-irs-on-big-tech-steroids>

<sup>17</sup> Dept of Treasury, “Digital Asset Marketplace Analysis, Notice ID 23-326-OITA” 12 June 2023 <https://sam.gov/opp/0833524105f440cfa6efdf26f6c328f4/view>

## What are my chances of an audit?

First, given the discussion above, what has been your total positive income in past years?

The 2020 audit rates (percent audited) are less than a tenth of the historic audit rates (from 2010) for total positive income greater than \$500,000. The IRS Commissioner implied audit rates for these income brackets will far exceed the historic audit rates. This would mean at least ten times greater audit rates for crypto investors making many trades.

	2020 Indiv. Rtns	Percent Audited	Historic Audit Rates
Individual income tax returns, total	164,511,483	0.2	
Size of total positive income [7]:			
No total positive income	3,631,912	0.3	25.5
\$1 under \$25,000	49,787,775	0.4	1.0
\$25,000 under \$50,000	39,516,857	0.2	0.6
\$50,000 under \$75,000	23,041,847	0.1	0.7
\$75,000 under \$100,000	14,726,736	0.1	0.7
\$100,000 under \$200,000	23,403,399	0.1	0.8
\$200,000 under \$500,000	8,165,629	0.2	2.3
\$500,000 under \$1,000,000	1,385,407	0.4	3.6
\$1,000,000 under \$5,000,000	622,329	0.4	8.2
\$5,000,000 under \$10,000,000	46,254	0.7	13.5
\$10,000,000 or more	164,511,483	0.2	25.5
Individual income tax returns, total	30,646	2.4	21.5
International returns [8]	152,692	0.6	6.4
Returns with earned income tax credit [10]	26,025,709	0.9	1.8

18

Smaller traders are less likely to be audited than larger traders because auditors are inclined to spend their time on larger trades.

## Wait! Did the IRS say they would only increase audit rates on the rich?

The IRS Commissioner, Treasury Secretary Yellen, and President Biden all promised publicly and repeated that the IRS wouldn't increase audit rates on those earning under \$400,000.

This is very deceiving.

When an average person hears "income," he thinks about gross income. But the IRS is referring to "total positive income" which is quite different. Total positive income is income before expenses. For the trader, positive income is the proceeds only – the value of what was sold -- without considering the cost.

*For example, in 2018, one of my clients reported proceeds (total positive income) of \$18,340,045. His total costs were \$18,522,135, with a resulting loss that year of \$-182,090. The taxpayers lost a lot of money, but for audit purposes, the taxpayer would be considered to have had \$18 million in income – or be considered super-wealthy*

18 "Internal Revenue Service 2022 Data Book" <https://www.irs.gov/statistics/soi-tax-stats-irs-data-book>

Middle-income crypto traders will be subject to significantly higher audit rates because of total positive income.

### **Is there a better way for traders to protect themselves?**

Wouldn't it be powerful if you could know in advance if the IRS thinks you were under-reporting income or had flagged one of your returns for a future audit? Investors need a more proactive monitoring strategy and a strategy in case the IRS contacts them.

### **Will the IRS use more criminal enforcement?**

Expect the IRS to use criminal enforcement more to pursue non-compliant crypto traders. Willfully failing to report significant crypto income can be handled as criminal fraud. Failing to file at all can be treated as illegal tax evasion. Both crimes are considered felonies. In both situations, the IRS lawyers only need to prove to the courts that over \$10,000 of income was intentionally not reported to evade taxes.

Criminal enforcement is easier and quicker for the IRS to win than traditional audits. Traditional audits, including appeals, can take 2-4 years to conclude, consuming many man-hours of labor. Audits of crypto raise complexities about the correct capital gain calculation, which can be aggressively contested in court.

Whereas with criminal enforcement, once a Department of Justice attorney delivers an indictment to a trader, all that is left to do is agree on the plea bargain. The taxpayer must still file past taxes plus an up to \$250,000 fine and prison time.<sup>19</sup> Criminal investigation takes less resources and is more profitable with higher odds of winning.

### **How does the spillover effect amplify the IRS's reputation?**

When the IRS publicizes the results of an audit or a criminal indictment, the publicity scares other taxpayers to fix their tax non-compliance. Researchers call this the spillover effect; others might call it the fear publicity machine. This effect is measured to be nine times.<sup>20</sup> This means that for every audit, nine others are scared into compliance.

---

<sup>19</sup> This was the experience of a client who hired my services after agreeing to the plea deal.

<sup>20</sup> Natasha Sarin and Lawrence Summers, "Understanding the Revenue Potential of Tax Compliance Investment: Working Paper 27571" National Bureau of Economic Research, <https://www.nber.org/papers/w27571>

## Part 3: How can crypto investors protect themselves?

### How can you get into compliance, according to the IRS?

Every taxpayer must comply with United States tax laws fully. Voluntary compliance is the cornerstone of the U.S. income tax system. According to the IRS, 75% of crypto owners are out of compliance.

Some are attracted to obscure arguments justifying not paying taxes at all.<sup>21</sup> Despite how passionate the advocates of these arguments are, they will not be paying your taxes, steep penalties, or prison time if you lose before the IRS.

It is better to find a way to get back into compliance by filing all your income tax returns and reporting your crypto taxes.

The official answer is to amend incorrect returns and file missing returns. You may want to consider the IRS Criminal Investigation Voluntary Disclosure Program if you have engaged in serious financial crime and not reporting.<sup>22</sup> The problem with this initiative is that most crypto traders who would like an amnesty program, haven't involved serious financial crime. So, this program is stiff medicine.

In 2022, I wrote to the IRS Commissioner about the need for a unique amnesty program for crypto investors.<sup>23</sup> I created a website ([cryptotaxamnesty.org](https://www.cryptotaxamnesty.org)) encouraging others to appeal to politicians. I have shared the information with the Taxpayer Advocates office as well.

---

<sup>21</sup> IRS, "The Truth About Frivolous Tax Arguments" <https://www.irs.gov/privacy-disclosure/the-truth-about-frivolous-tax-arguments-introduction>

<sup>22</sup> IRS, "IRS Criminal Investigation Voluntary Disclosure Practice" <https://www.irs.gov/compliance/criminal-investigation/irs-criminal-investigation-voluntary-disclosure-practice>

<sup>23</sup> Clinton Donnelly, "Crypto Tax Amnesty Initiative" <https://www.cryptotaxamnesty.org/>

## How do you get in compliance using a transition strategy?

But for many, paying taxes on past gains (which may have evaporated during a bear market) is more than they can afford. They want to get back to compliance but don't know how.

Here is an approach many have used to transition to compliance under the radar, so to speak.

### Step 1: Proactive IRS monitoring.

Continual monitoring of your IRS accounts is critical to protecting yourself. Monitoring your IRS accounts allows you to detect under-reporting of income – a common cause of audits. Also, the monitoring can see when a tax year is flagged for an audit one to six months before the formal start of an audit, giving you time to correct issues, avoiding accuracy penalties or even the entire audit. These two indicators alone can keep you from getting in the crosshairs of an IRS audit.

This service is available from IRS Guard Dog ([irsguarddog.com](http://irsguarddog.com).) They offer four membership levels to match your budget needs. All membership levels, including the lowest \$12 a month level, include proactive IRS monitoring. You receive a monthly status report on your IRS account. You also receive an immediate email if a new IRS audit flag occurs on any tax year.

All tax years are covered. Spouses are covered for free. You can cancel anytime.

*IRS Guard Dog member Chris from California, a crypto trader, had not been filing tax returns for many years. We detected a new IRS audit flag on his 2020 return. We helped him to file six years of returns, quickly getting him into compliance. The IRS removed the audit flag.*

### Step 2: File the latest year's return and pay the taxes.

Start by accurately preparing a return reporting all your crypto income for the latest year's return. This return will be compliant. The prior year's returns will age beyond the statute of limitations by continuing to file honest returns in subsequent years.

You should recalculate your crypto gains for the prior six years so that the gains reported in the latest year's return will be consistent with prior returns if you file them in the future.

A common concern taxpayers have with this strategy is thinking that if they file this year, the IRS will wonder why they didn't report crypto gains in prior years. The electronic filing system doesn't ask these questions. The IRS accepts returns as filed. Don't let this concern paralyze you.

There is no guarantee that the IRS won't examine past year returns.

If you don't file a return, the IRS can optionally file one for you (a Substitute For Return (SFR)) and charge you the taxes owed.

### **Step 3: Be prepared to file a past return quickly.**

Continue to monitor your IRS account. Make sure to resolve any under-reporting detected. Be prepared to file or amend a return if an audit flag occurs.

### **Step 4. Have an IRS audit strategy.**

The start of an audit is terrifying. There is a panic about hiring the right professionals to help you. Should you hire a lawyer? a CPA? A crypto expert?

These professionals know you are afraid at the start of the audit. They understate how long an audit will take and the expenses you may incur. Recalculating crypto gains at the beginning of the audit and paying for forensic accountants to dissect errors in the IRS' gain calculations are critical to winning and can cost a lot. Audits can take up to two years. Appeals to the Tax Court can add another two years. As each month passes, legal costs get higher and higher. Properly defending a crypto audit, including petition to the Tax Court (common), can cost over \$150,000.

The auditor demands many financial documents. Gathering past detailed records can be difficult. The auditor often requires a lengthy interview. The auditor assumes you are hiding income. His management measures his performance by how much additional taxes and penalties he can assess. To him, you look like a juicy steak.

Without a plan, big mistakes will be made, weakening your future defense and risking your case in court.

IRS Guard Dog offers a full membership at \$249 a month, which covers all of a crypto trader's audit defense expenses. It is like car insurance for your tax returns.

*The auditor assessed crypto trader Mike from Texas \$1.9 million in additional taxes and penalties. Our forensic accountant demolished the auditor's gain calculation, showing that the auditor had wrongly calculated 60,000 transactions. The IRS legal staff conceded their entire gain calculation was wrong, saving Mike from the dreadful assessment.*

### **Step 5. Backup all your transaction records**

The tax code places the responsibility of keeping records of transactions on the taxpayer. So, if an exchange closes and you lose access to your transaction history, this could hurt you in a cryptocurrency audit. So back up your transaction history from all exchanges you use. It would also be good to keep a list of all your wallet addresses.

## Summary

New funding enables the IRS to become more aggressive and effective at finding non-compliant crypto traders. Traders need new strategies. Proactive account monitoring using IRS Guard Dog is a powerful strategy all traders need to use. A transitional compliance strategy can help many taxpayers regain compliance with some risks.