



ONCHAIN ACCOUNTING'S **2024 ULTIMATE** CRYPTO ACCOUNTING GUIDE



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WHO CAN BENEFIT FROM A CRYPTO ACCOUNTANT?

1 Cryptocurrency Exchanges

Crypto exchanges facilitate the buying, selling, and trading of digital assets. They require crypto accounting services for accurate reporting of transactions, compliance with regulatory standards, and managing large volumes of complex data.

2 Crypto Miners

Miners play a crucial role in blockchain networks and face unique tax implications and accounting challenges. They need specialized services to track and report mining rewards, expenses, and depreciation of mining equipment.

3 Investment Funds and Venture Capitalists (VCs)

Funds and VCs investing in crypto assets or blockchain technology require crypto accounting services for portfolio valuation, compliance with investment regulations, and strategic financial planning.

4 Cryptocurrency Investors and Traders

Individuals and entities investing or trading in cryptocurrencies need to manage capital gains and losses, tax implications, and regulatory compliance. Specialized accounting services provide the necessary expertise for these tasks.



5 Crypto Startups and Tech Companies

These companies, including those managing ICOs and token sales, require accounting services that understand the specifics of the crypto industry, including valuation of digital assets and navigating regulatory frameworks.

6 E-Commerce Businesses Accepting Crypto Payments

Businesses accepting cryptocurrencies as payment need to account for these transactions accurately, manage tax implications of currency fluctuations, and ensure proper reporting.

7 Freelancers and Contractors Paid in Cryptocurrency

Individuals receiving income in cryptocurrencies must accurately report this income for tax purposes and manage any resulting tax liabilities.

8 Companies with Crypto Payroll

These companies face unique challenges in payroll management, including tax withholding and reporting, and valuation of crypto payments.

9 Non-Profit Organizations Accepting Crypto Donations

Non-profits need to record crypto donations correctly, value them for tax purposes, and comply with reporting requirements.

10 High Net Worth Individuals with Diverse Portfolios

Individuals with significant investments in cryptocurrencies require sophisticated accounting services for asset management, tax optimization, and regulatory compliance.

CONCLUSION

The diverse range of businesses and individuals in the crypto space, including exchanges, miners, investment funds, VCs, and others, underscores the growing importance of specialized crypto accounting services. These services are crucial for ensuring accurate financial reporting, tax compliance, and effective management of crypto-related activities.



FIVE CRYPTO ACCOUNTING BEST PRACTICES

Here are our top five tips to get you started:

i Use Crypto-specific Accounting Software

Sorry QuickBooks, Xero, and NetSuite, you're not cut out for crypto accounting. These legacy systems are excellent at handling fiat transactions that run through financial institutions, but not so much when it comes to blockchains. That's where crypto accounting software comes in. These programs can pull data from the blockchain and do the transaction costing for you. It's like having a personal assistant for your accounting needs! Just remember to verify and cross-check the reporting.

ii Maintain Crypto Wallet Hygiene

Wallet hygiene? Sounds fancy! All it means is having your wallets structured properly. Use separate wallets for distinct purposes, like one for NFT sales and another for paying contractors. Mixing business and personal transactions is a big no-no! Having single-use wallets ensures a clean audit trail and keeps your accounting team happy.

iii Safely and Properly Store Your Wallet Logins

Don't let "the infamous forgotten wallet" happen to you! Keep a record of your wallets, and download all of your transactions before closing any accounts. A good accounting team can sometimes identify missing wallets, but why risk it? Better safe than sorry!

iv Set Yourself Up For Success

Don't be that person who procrastinates until the end of the year to do their crypto bookkeeping. It's a recipe for disaster! Stay on top of it throughout the year, and your accounting team will thank you. Once your processes are in place — the rest of the year will be a breeze. Organization is key here!

v Reach Out to an Expert

When all else fails, don't be afraid to reach out to an expert in the field. It's better to ask for help than to mess up your bookkeeping and regret it later.



UNDERSTANDING CRYPTO ACCOUNTING UNDER IFRS FRAMEWORK

1 Cash and Cash Equivalents in Accounting

Cryptocurrencies, while functioning as a digital form of money, do not qualify as traditional cash. They lack government or central bank backing and are not recognized as legal tender in most jurisdictions. Under International Accounting Standard 7 (IAS 7), cryptocurrencies are not considered cash as they cannot be readily exchanged for goods or services. Furthermore, due to their significant price volatility, they do not meet the criteria for classification as cash equivalents, which are typically short-term, highly liquid investments with minimal risk of value fluctuations.

2 Financial Asset at Fair Value Through Profit or Loss for Cryptocurrency Accounting

Cryptocurrencies might be considered as financial assets at Fair Value Through Profit or Loss (FVTPL). However, under International Accounting Standard 32 (IAS 32), a financial asset is defined as cash, an equity instrument of another entity, a contractual right to receive cash or other financial assets, or a contractual right to exchange financial assets or liabilities under favorable conditions. Cryptocurrencies do not fit these criteria as they are not equity instruments, nor do they grant the holder any contractual rights to receive money or other financial assets.

3 Investment Property Classification for Cryptocurrency Holdings

Classifying cryptocurrencies as investment property under IAS 40 is not suitable. Cryptocurrencies are not physical assets like land or buildings and do not fit the definition of investment property, which is typically associated with tangible assets.



4

Property, Plant, and Equipment; Intangible Assets; or Inventories

Given that cryptocurrencies cannot be categorized as cash, cash equivalents, financial instruments, or investment property, the remaining classification categories are property, plant and equipment; intangible assets; or inventories. However, property, plant, and equipment, as defined by IAS 16 'Property, Plant and Equipment,' relates to tangible items, and cryptocurrencies lack physical form. Therefore, the focus shifts to the intangible assets and inventories classifications.

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Intangible Assets and Inventories

Cryptocurrencies might be accounted for under IAS 38 'Intangible Assets' at cost or revaluation, depending on the presence of a robust market for the specific cryptocurrency. Alternatively, in certain situations, it might be suitable for an organization to handle cryptocurrency assets following the principles outlined in IAS 2 'Inventories' for commodity broker-traders. This approach is typically used for recognizing inventories at a lower cost than their estimated selling price, also known as the net realizable value. However, this classification is only appropriate in specific circumstances where the entity acquires cryptocurrencies for short-term profit from price fluctuations or broker traders' margins.



TAX ADVANTAGE AND STRATEGIES

Understanding the Tax Landscape

The taxation of cryptocurrencies and digital assets varies by jurisdiction, but generally, they are treated as property for tax purposes. This classification means that capital gains and losses rules apply to transactions involving cryptocurrencies.

Holding Periods for Long-Term Capital Gains

One key tax strategy involves the holding period of your cryptocurrency investments. Assets held for more than a year typically qualify for long-term capital gains tax rates, which are usually lower than short-term rates. By strategically planning the duration of your investment, you can potentially reduce your tax liability.

Tax Loss Harvesting

Tax loss harvesting is a strategy where you sell cryptocurrencies at a loss to offset capital gains on other investments. This approach can help reduce your overall tax burden. It's important to be aware of the 'wash sale' rule, which prohibits buying a substantially identical asset within 30 days before or after the sale.



Utilizing Retirement Accounts

Investing in cryptocurrencies through certain retirement accounts, like a Self-Directed IRA, can offer tax advantages. For example, with a Roth IRA, you might be able to withdraw your investments tax-free in retirement, as taxes are paid upfront on contributions.

Charitable Contributions

Donating cryptocurrencies to a qualified charitable organization can provide tax benefits. You may be able to deduct the fair market value of the cryptocurrency at the time of donation, without incurring capital gains taxes on the appreciation.

Gifting Cryptocurrencies

Gifting cryptocurrencies can be a tax-efficient strategy. In many jurisdictions, gifts below a certain threshold are not subject to gift tax. The recipient of the gift inherits the cost basis and holding period of the asset, which can be advantageous for long-term tax planning.

Record Keeping and Reporting

Maintaining accurate records of all cryptocurrency transactions is crucial for tax compliance. This includes dates of transactions, amounts, fair market values, and the purpose of each transaction.

Seek Professional Advice

Tax laws regarding cryptocurrencies are complex and evolving. It's essential to consult with a tax professional who is knowledgeable about digital assets to ensure compliance and optimize your tax strategy.



TRANSACTION TYPES

Tip 1: Yield Farming Rewards are Ordinary Income

If the received asset is volatile, it's recommended you sell it immediately after claiming the reward. Otherwise the asset could depreciate, while you still have taxable income without adequate assets to cover the tax liability. Even if you sell the assets now for a loss, the loss is a capital loss, which is limited to \$3,000 per a year deduction against ordinary income.

Tip 2: Airdrops are considered ordinary income. If you received the ARB airdrop, it is taxable income at the market price it was received. To avoid having a tax liability at year end without adequate funds to cover it, one should sell part of the ARB airdrop at the time it was received. If one waits until the year end to sell, there is risk the ARB token could depreciate significantly by then, leaving the taxpayer without adequate funds to cover the tax liability.

Tip 3: NFT mints are another common pitfall our clients run into. Selling an NFT collection for ETH, is ordinary income at the market price of eth when it was received. Therefore if at the time of the mint, ETH was \$3,000 and now at yeared ETH is \$1,000, one would need to sell all the ETH to cover the ordinary tax liability from the sale. Granted, the person would also have a significant capital loss, but as mentioned that's limited to \$3,000 per a year.

Tip 4: Tracking tax lots for digital assets is really important as it relates to long term and short term, gains and losses. The tax consequences between these two brackets are significant, and should be incorporated into the decision making process of disposing assets. It is very challenging and nearly impossible to track this without proper crypto tax software. Please don't waste time manually keeping track of spreadsheets.

Tip 5: Having accounting books for crypto transactions is extremely important, and is unfortunately overlooked, costing businesses lost money and time. It's too late to straighten this out a month before the tax deadline. Additionally, many tax strategies can't be implemented at this point. The best way to address this, is to have the books set up properly day one, and engage with a tax professional who understands your business sensitivities so they appropriately advise you.

Tip 6: Account for Gas Fees

Don't overlook the gas. We all spend fees on gas to process transactions on the network. It might seem like an insignificant expense, but a few dollars here and there adds up. In addition to regular transactions, gas for bridging assets to layer 2 networks are typically higher and also overlooked expense. All these expenses need to be accounted for, and could help offset the tax liability incurred by yield farming or other sources of income.

CRYPTO TAXES 101

What Constitutes a Taxable Event?

Understanding what constitutes a taxable event is the cornerstone of crypto tax compliance. In the eyes of the IRS, most transactions involving cryptocurrency are considered taxable events. These events trigger reporting requirements that you must adhere to. You may wonder, “Do you have to pay taxes on crypto?” The answer is yes, in most cases. Examples:

- 1 Selling Crypto for Fiat: This straightforward taxable event triggers capital gains tax.
- 2 Crypto-to-Crypto Trades: Exchanging one cryptocurrency for another also incurs capital gains tax.
- 3 Mining Rewards: These are considered income and are subject to income tax.
- 4 Receiving Crypto for Services: If you’re paid in crypto, it’s taxable income.

When discussing taxable events, it is additionally quintessential to understand the legalities + regulations associated with personal loans. Specifically, personal loans can be made by a bank, an employer, or through peer-to-peer lending networks, and because they must be repaid, they are not taxable income. If a personal loan is forgiven, however, it becomes taxable as cancellation of debt (COD) income, and a borrower will receive a 1099-C tax form for filing.

Tax-Free Crypto Transactions

While many crypto-related activities are taxable, some exceptions exist. Knowing what these are can help you plan your transactions more effectively. Examples:

- 1 Purchasing crypto with USD or fiat currency: This is not a taxable event.
- 2 Holding crypto: If you’re merely holding onto your crypto assets, you’re not triggering a taxable event.
- 3 Transferring between your own wallets: As long as the assets remain in your possession, moving them between your own wallets is not taxable.
- 4 After considering these points, it’s clear that not all hope is lost regarding tax-free crypto activities.



How to File Your Crypto Taxes

Filing your crypto taxes begins with filling out tax form 8949 – Sales and Other Dispositions of Capital Assets. Form 8949 will detail trades resulting in long-term and short-term capital gains and losses. Once the form is properly completed, a business or individual can provide their traditional tax accountant with the 8949 form to include in their tax filing.

Outside of tax form 8949, filing your crypto taxes involves several steps, from calculating your capital gains and losses to reporting any income received in crypto. Let's explore these aspects in detail.

Calculating Capital Gains and Losses

Calculating capital gains or losses is vital to filing cryptocurrency taxes. The formula is simple: The selling price minus the purchase price equals your capital gain or loss. Although, the application can be complex due to the volatile nature of crypto markets.

Onchain Accounting uses specialized software that accurately and efficiently calculates your capital gains and losses, considering the specific time frames and rates that apply to your situation. Our thorough processes and specialized tools saves you time and ensures accuracy in your tax filing.

Navigating the Complex World of Crypto Accounting

In the rapidly evolving landscape of cryptocurrency, managing your financial records and tax obligations can be daunting. OnChain Accounting, a leader in crypto accounting, offers specialized expertise to navigate this complex terrain.

Tailored Solutions for Diverse Crypto Transactions
Whether you're dealing with Bitcoin, Ethereum, or emerging altcoins, each transaction has unique implications. OnChain Accounting provides customized solutions for a wide range of crypto activities, ensuring compliance and accuracy.



BENEFITS OF CRYPTO ACCOUNTING PARTNER

The Role of a Crypto Accounting Partner

This is where a crypto accounting partner comes into play. These professionals specialize in the intricacies of cryptocurrency accounting and taxation. Here are some of the key benefits they bring to the table:

- **Expertise in Cryptocurrency Taxation:** A crypto accounting partner is well-versed in the tax laws and regulations related to cryptocurrencies in your jurisdiction. They can help you navigate the complexities of reporting your crypto gains and losses accurately. This includes understanding concepts like capital gains tax, mining income, and the tax treatment of different types of crypto transactions.
- **Portfolio Management:** Managing a diverse cryptocurrency portfolio can be overwhelming. A crypto accounting partner can help you keep track of your holdings, monitor market trends, and make informed decisions about when to buy, sell, or hold your assets. Their insights can be invaluable in optimizing your portfolio for growth.
- **Risk Mitigation:** Cryptocurrency markets are notoriously volatile, and investing in them carries inherent risks. A crypto accounting partner can provide real time data on your tax position and provide insights on tax consequences resulting from different transactions. risk assessment and management strategies tailored to your financial goals and risk tolerance. This can help you make more informed investment decisions and minimize potential losses.
- **Compliance and Security:** Staying compliant with tax regulations and ensuring the security of your crypto assets are paramount. A crypto accounting partner can help you implement robust security measures to protect your holdings from theft or hacking. They can also assist in preparing and filing accurate tax returns to avoid legal complications. Additionally, wallet controls and segregation of duties are important to ensuring the custody of funds is secure.
- **Long-Term Planning:** Whether you're looking to hold cryptocurrencies as a long-term investment or use them for everyday transactions, a crypto accounting partner can help you develop a comprehensive financial plan. This plan will take into account your short-term and long-term goals, ensuring that you're well-prepared for the future.
- **Crypto Accounting Software:** With crypto accounting professionals you can be confident all your onchain transactions are properly being imported into your traditional accounting software. Say goodbye to manually recording journal entries and welcome software automation. This ensures accuracy and eliminates room for error. With a strong accounting partner you can be confident your books are giving you the complete financial picture of your business operations.

TOP 6 CRYPTO TAX SOFTWARES

1 Coinledger

Best for: Trusted software for both beginners and experts

There is a reason why CoinLedger is at the top of the list: it is the best crypto tax software on the market. If you cannot trust our words, maybe the facts will help. CoinLedger has so far supported 400,000 crypto investors, including Fintech Collective and CMT Digital. Also, it has attracted the attention of both conventional and crypto-native media, including Forbes and Bloomberg.



2 ZenLedger

Best for: Understanding DeFi and NFT income tax reporting

For those who have a DeFi portfolio: “ZenLedger is a lifesaver”. Since its inception, the software has been at the service of hundreds of thousands of crypto investors. Till now, Zenledger has served 100,00+ customers and tracked over 50B+ transactions.



3 Koinly

Best for: New cryptocurrency investors

If you are a beginner wondering how accounting for the crypto world works, Koinly is hands down the best option. This software, founded just recently in 2018, makes tax reporting a cakewalk, even for those logging their transactions for the first time. There is a user-friendly interface, easy, breezy tooltips, extensive compatibility, and much more to make it a must-have.



3 CoinTracker

Best for: Investors hunting cost-free options

If you are in the early stages of crypto investment and you’ve made up to 25 transactions, the best free crypto tax calculator for you is CoinTracker. You must be wondering, “Every software company is offering a free plan; what’s unique about CoinTracker?” Well, the clincher here is that no one except them on this list allows unrestricted integrations as well as generating reports for free.



5 TokenTax

Best for: Investors looking for a fully automated reporting option

If you are someone who is not interested at all in crypto tax reporting, TokenTax will be your guardian angel. And we are not bluffing. Not only does the software extract data and generate reports automatically, but it also fills in the crypto tax forms and submits them to the IRS.



6 Accounting

Best for: Tax Optimization to Reduce Liabilities

The main concern for an investor having a diversified portfolio is keeping a record of their investments. The problem worsens when you have to report tax while ensuring that you haven't missed out on any tax-saving opportunity. If you are someone troubled by all these issues, Accounting has a rescue plan for you.



10 BEST PODCASTS

Sneak Peak: Top 10 Best Crypto Podcasts

1 Unchained

Watch if - you want to stay updated

2 Empire

Watch if - you are new to cryptocurrency

3 What Bitcoin Did

Watch if - Bitcoin is all you want to know about

4 Bankless

Watch if - you want to switch to Ethereum Ecosystem

5 The Defiant Podcast

Watch if - you wonder "What is DeFi?"

6 The a16z Podcast

Watch if - venture capital interests you

7 The Pomp Podcast

Watch if - the goal is to sharpen your finance skills

8 The 'What is Money?' Show

Watch if - you are still confused about the concept of money

9 The Bad Crypto Podcast

Watch if - you are a new investor in town

10 Tales From The Crypt (TFTC)

Watch if - learning the variables in the crypto equation is your goal



FAQS

What is crypto accounting and how does it differ from traditional accounting?

Crypto accounting is the process of tracking and recording cryptocurrency transactions, which can be a bit more complex than traditional accounting due to the volatile nature of cryptocurrencies. It is crucial to correctly assess any gains or losses you have as well as the proper cost basis behind your crypto assets. Unlike regular currencies, crypto values can fluctuate rapidly, so it's crucial to have specialized knowledge in this area.

I have a few years of on-chain activity which hasn't been reported yet, is it too late to report?

No, in fact there's no better time than right now. Additionally, to report for the current year, we have to look back at prior years to establish a cost basis and determine the length of time assets were held.

How does the timing of selling crypto affect my tax liability?

Crypto held for more than one year is taxed as long-term capital gains, which has lower tax brackets than short-term capital gains. The logic behind this, is the government wants to incentivize citizens to invest for a longer duration.

How is crypto taxed?

Cryptocurrency taxation varies based on factors such as your country of residence. In most cases, cryptocurrencies are treated as property for tax purposes. This means that transactions involving crypto, like selling or trading, may result in capital gains or losses. It's crucial to keep detailed records of your transactions for accurate reporting.

How do I report crypto transactions on my tax return?

Reporting cryptocurrency on taxes involves documenting each transaction, including details like the date, amount, and purpose (e.g., buying, selling, trading). Many tax authorities provide specific forms or guidelines for reporting crypto transactions. Consider consulting a tax professional for assistance and to ensure accurate reporting.

Can losses on my crypto investments offset my taxable income?

Yes, losses on Bitcoin or cryptocurrency investments can typically offset other capital gains, reducing your taxable income.