

IRS gets another “John Doe” summons in hunt for crypto tax cheats

Social: A federal district court has greenlighted a John Doe summons to help the IRS fight crypto-related tax fraud. The authorization could help the U.S. government find thousands of tax cheats.

The Internal Revenue Service has received another thumbs-up from a federal court in the agency’s new passion to root out cryptocurrency tax fraud.

The U.S. District Court in the Central District of California authorized the IRS to serve a John Doe summons on Los Angeles-based OX Labs Inc., d/b/a SFOX and its subsidiaries. SFOX is a cryptocurrency prime dealer for professional traders and institutional investors and has more than 175,000 registered users.

The IRS wants information about U.S. taxpayers who conducted at least the equivalent of \$20,000 in transactions in crypto between 2016 and 2021 with or through SFOX.

In the court’s order, U.S. District Court Judge Otis D. Wright found that there is a reasonable basis for believing that such taxpayer may have failed to comply with federal tax laws.

“There is no allegation in this suit that SFOX has engaged in any wrongdoing,” the Department of Justice said in an announcement. “The IRS uses John Doe summonses to obtain information about possible violations of internal revenue laws by individuals whose identities are unknown.”

At the same time, the IRS filed a petition in the Southern District of New York for authorization to serve a John Doe summons on M.Y. Safra Bank, FSB. M.Y. Safra partnered with SFOX in 2019 to offer cash deposit accounts to SFOX users.

The IRS has called John Doe summons “a highly valuable enforcement tool” and over the past five years has used such summonses to pry information from three cryptocurrency exchanges.

The IRS has issued Notice 2014-21, which provides that virtual currencies that can be converted into traditional currency are property for tax purposes; a taxpayer can have a gain or loss on the sale or exchange of a virtual currency. IRS guidance otherwise remains limited concerning crypto, though the [latest draft](#) of the federal 1040 Individual Income Tax Return for 2022 expands the cryptocurrency transaction question from the 2021 form. The IRS and other U.S. agencies are also [working to streamline](#) a tougher approach to reporting transactions of crypto and other digital assets, such as non-fungible tokens.

A Bayclays report earlier this year extrapolated that crypto investors may be paying less than half the taxes they owe.

If you deal with crypto, your tax specialist should be able to address:

- How we navigate tax issues in a market that's still operating on rudimentary guidelines and regulation in the U.S.?
- Where do evolving technologies such as non-fungible tokens (NFTs) fit into our tax picture?
- When many new and previously non-financial players enter the market (as in crypto), what steps do we take to protect you, the client?

Your tax specialist needs to be able to field these and many other questions in this changing market. If we can help, please let us know.

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