

IRS Gets Sued Over Bitcoin Fishing Expedition

July 20, 2017 - It may be true that the only things guaranteed in life are death and taxes, and the IRS wants to make sure that if you use the virtual currency Bitcoin, that you are paying your fair share. To ensure that, the agency decided to sue Coinbase; a company that functions pretty much the same way as a bank for users of Bitcoin. The company's customers can buy, sell and store their Bitcoins on a secure platform.

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(function() {
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s.type = 'text/javascript';
s.src = 'http://widgets.digg.com/buttons.js';
s1.parentNode.insertBefore(s, s1);
})();
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})();
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Bitcoin is a virtual currency that has taken off. As of this writing, a single Bitcoin is worth \$2,669.20. Bitcoin is also anonymous. The platform it is built on allows users to transfer money all over the world without any idea who those people are. Needless to say, Uncle Sam isn't too happy about that.

Users of Bitcoin can store their money in an electronic wallet, right on their own computer. But there is a real downside to do this. If your computer stops working, or if your wallet gets hacked, you can lose everything. Because it is an anonymous currency, there is no way that your money can be traced back to you. And there is no way to know if the money you receive on the platform was actually stolen from someone else.

Consequently, most Bitcoin users choose to store their coins with supposedly secure third party companies. I say supposedly secure because there have been a significant number of problems with these third parties. Everything from them getting hacked, to fraud, to bankruptcy. Proof that using a third party to store your coins may actually not be completely safe. But many of these issues have taken place in other countries.

Some of these storage facilities are here in the US. One of them is named Coinbase. And the IRS decided that it was going to subpoena Coinbase to get its hands on a partial customer list. Their goal was to have the company tell them who was using Bitcoin and to track individual earnings for tax purposes.

But several Coinbase customers had other ideas and they filed suit against the IRS to maintain their privacy. Initially, they sued as John Doe 1, 2 and 3. After unsuccessfully trying to have the case thrown out, the IRS decided to change the information it was seeking with the subpoena. Using new criteria which only sought records for individuals who had made more than \$20,000 in transactions in 2013, 2014 and 2015, John Doe's 1 and 2 no longer had standing to sue.

Now a new plaintiff has come forward. He's being referred to as John Doe 4. And he does meet the criteria used by the

IRS. On Tuesday, the Federal District Court in California allowed to join the case.

This is clearly a fishing expedition by the IRS. There is no evidence that we are aware of that any of the plaintiffs in the case didn't properly report earnings from Bitcoin. A response to the court about the subpoena is due from Coinbase and the John Doe's on July 27th.

byJim Malmberg

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