

IRS Attempts to Crackdown on Bitcoin Users with “John Doe” Summons

By Kevin Jones, J.D. Candidate 2018 | December 2, 2016

The Department of Justice on behalf of the [Internal Revenue Service](#) (IRS) filed a request for a “John Doe” summons in federal court for the individuals who engaged in transactions on Coinbase from 2013-2015. A “John Doe” summons request does not name any individual in particular, but instead identifies a nameless class of people that Coinbase is expected to turnover. The summons currently would include a large portion of the 4.8 million users trading over \$5 billion in virtual currencies.

The IRS has initiated the summons due to a growing government concern about the lack of regulation of virtual currencies. In September, the Department of Treasury published a [memorandum](#) urging the IRS to take action in regulating the virtual currency market. In response, the IRS used its summons to bring to light three [cases](#) tax evasion involving the use of Bitcoin. Due to the high level of anonymity, the IRS believes there are others utilizing the virtual currency system to evade taxes.

Still there are those unsatisfied with the IRS response. Some have criticized its “John Doe” since it carries major implications for [privacy](#) rights of consumers. If Coinbase complies with the summons and turns over the identities of its clients, neither the IRS nor Coinbase will have to provide individuals notice. This possibility outrages users and others concerned with consumer privacy issues.

Others have [found fault](#) with the IRS crackdown since they believe the IRS has done a poor job providing traders with adequate instructions on how to comply with tax regulations. Arguably, many Bitcoin traders violate tax reporting policies simply because they do not [understand](#) how to report their trades.

Experts disagree about the impact of the summons. Some analysts believe the broad categorization may majorly impact those who made gains in the past two years using Coinbase, whereas others have argued that, in reality, few will be impacted by the IRS summons. However, many believe the summons carries large implications. These individuals cite the summons [broad](#) scope that exceeds many of the former summons given to banks. An approval of such an expansive summons will increase the regulatory power of the IRS.

Marco Santori, a technology law attorney at Cooley LLP, [argued](#) that the IRS will inevitably investigate just a few individuals. These most likely will be the largest sellers of Bitcoin currency. Since Coinbase has refused to comply with the blanket request, Santori believes the IRS and Coinbase will develop a compromise. Santori predicted the IRS will ask Coinbase to identify the clients that made the largest gains between 2013 and 2015.

Either way, the outcome of the Coinbase “John Doe” summons is sure to shape future policies regarding the regulation of the virtual currency industry.