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U.S. Court Orders Coinbase to Share Information about Account Holders with the IRS but Limits to Transactions over $20,000

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A U.S. federal district court judge on Tuesday, November 29 ordered Coinbase Inc., the largest cryptocurrency exchange and storage platform in the world, to provide information about certain of its account holders to the U.S. Internal Revenue Services (IRS). Information pertaining to as many as 14,355 account holders and 8.9 million transactions could be covered in this order, according to estimates provided by Coinbase. The full order by Judge Jacqueline Scott Corley of the U.S. District Court for the Northern District of California can be found here.

While a significant milestone in a protracted legal battle between Coinbase and the IRS, the order handed down by Judge Corley is considerably narrower than what the IRS had originally requested. The information Coinbase must provide is limited to the holder's name, date of birth, taxpayer identification number (TIN), and address; the date, amount, type of transaction, post-transaction balance, and names of counterparties to any transaction covered by the order; and periodic account statements for the covered accounts. Significantly, only account holders that have bought, sold, sent, or received cryptocurrency worth $20,000 or more in any tax year from 2013 to 2015 are covered by the order.

The IRS's original "John Doe" summons would have applied to all Coinbase account holders and included information such as account opening records, Know-Your-Customer diligence, and agreements concerning third-party access, control, or transaction approval authority—all of which the IRS argued were necessary to properly identify the true owners of the accounts. The court declined to require this information for all accounts covered by Tuesday's order, but suggested that the IRS could obtain additional information, where necessary, on a specific account basis.

The IRS had sought information about Coinbase account holders in connection with its investigation into potential underreporting of income and failure to pay to taxes on cryptocurrency transactions. As noted in the court's order, only 800 to 900 taxpayers reported bitcoin-related gains on an electronically-filed Form 8949 during the years covered by the order. In contrast, more than 14,000 Coinbase account holders had engaged in transactions meeting the $20,000 threshold during the same period. The court inferred from this discrepancy that "many Coinbase users may not be reporting their bitcoin gains," which was sufficient to establish the IRS's "legitimate purpose" in obtaining the requested information.

This post previously appeared on Proskauer's New Media & Technology Law Blog.

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