

1 CAROLINE D. CIRAULO
Principal Deputy Assistant Attorney General

2
3 JEREMY N. HENDON (ORBN 982490)
4 AMY MATCHISON (CABN 217022)
Trial Attorneys
United States Department of Justice, Tax Division
5 P.O. Box 683, Ben Franklin Station
Washington, D.C. 20044
6 Telephone: (202) 353-2466
7 (202) 307-6422
Fax: (202) 307-0054
8 E-mail: Jeremy.Hendon@usdoj.gov
Amy.T.Matchison@usdoj.gov
9 Western.Taxcivil@usdoj.gov

10 BRIAN J. STRETCH (CABN 163973)
United States Attorney
11 THOMAS MOORE (ALBN 4305-O78T)
Chief, Tax Division
12 COLIN C. SAMPSON (CABN 249784)
Assistant United States Attorney
13 450 Golden Gate Avenue, 11th Floor
San Francisco, California 94102
14 Telephone: (415) 436-7020
15 Email: Colin.Sampson@usdoj.gov

16 Attorneys for United States of America

17 UNITED STATES DISTRICT COURT FOR THE
18 NORTHERN DISTRICT OF CALIFORNIA

19 IN THE MATTER OF THE TAX)
20 LIABILITIES OF:)
21 JOHN DOES, United States persons who,)
at any time during the period January 1, 2013,)
22 through December 31, 2015, conducted)
transactions in a convertible virtual currency)
23 as defined in IRS Notice 2014-21.)
24 _____)

Civil Number:

**UNITED STATES' MEMORANDUM IN
SUPPORT OF *EX PARTE* PETITION
FOR LEAVE TO SERVE JOHN DOE
SUMMONS**

25 The United States of America submits this memorandum in support of its petition for an order
26 approving the service of an Internal Revenue Service "John Doe" summons on Coinbase, Inc. for
27 information related to transactions conducted in convertible virtual currency as defined in IRS Notice

1 2014-21. Pursuant to 26 U.S.C. § 7609(h)(2), the Court's determination to approve a John Doe
2 summons shall be made *ex parte* and shall be made solely on the petition and supporting affidavits.
3 Thus, the pleadings filed in this proceeding will not be served upon any person or entity and no other
4 filings are permitted from other persons or entities. Accordingly, this matter is ripe for the Court's
5 consideration. The United States requests that the Court review the petition and supporting documents
6 and enter the proposed order at the Court's earliest opportunity.

7 INTRODUCTION

8 The IRS is responsible for monitoring ways in which United States taxpayers evade their United
9 States tax obligations by concealing or otherwise failing to report their proper amount of taxable income
10 and thus underpay their taxes. The ever-changing digital age and innovation pose new risks for the IRS
11 and tax compliance by United States taxpayers. One such innovation is the creation of virtual currency
12 which, unlike U.S. dollars or other government-issued currencies, does not have a physical coin or bill
13 associated with their circulation and is not owned by any government.

14 Since 2009, the use of virtual currency has increased exponentially. Some users value the
15 relatively high degree of anonymity associated with virtual currency transactions because only a
16 transaction in virtual currency, such as buying goods or services, is public and not the identities of the
17 parties to the transaction. Because of that, virtual currency transactions are subject to fewer third-party
18 reporting requirements than transactions in conventional forms of payment. However, due to this
19 anonymity and lack of third-party reporting, the IRS is concerned that U.S. taxpayers are underreporting
20 taxable income from transactions in virtual currencies. Further, because the IRS considers virtual
21 currencies to be property, United States taxpayers can realize a taxable gain from buying, selling, or
22 trading in virtual currencies. There is a likelihood that United States taxpayers are failing to properly
23 determine and report any taxable gain from such transactions.

24 In order to identify taxpayers who have may have underpaid taxes associated with transactions in
25 virtual currency, the United States brings this *ex parte* proceeding under § 7609(f) and (h) of the Internal
26 Revenue Code (26 U.S.C.) for leave to serve a John Doe summons on Coinbase. The John Doe
27 summons seeks records relating to transactions in convertible virtual currency as defined in IRS Notice

1 2014-21. *See* Declaration of Senior Revenue Agent Davide Utzke in Support of *Ex Parte* Petition for
2 Leave to Serve “John Doe” Summons (“Utzke Decl.”) Exhibit B. The John Does whose identities are
3 sought by the summons are United States persons who, at any time during the period January 1, 2013,
4 through December 31, 2015, conducted transactions in a convertible virtual currency. The issuance of
5 the summons is warranted here because (i) the summons relates to an ascertainable group or class of
6 persons; (ii) there is a reasonable basis for believing these U.S. taxpayers failed to comply with internal
7 revenue laws; and (iii) information sufficient to establish these U.S. taxpayers’ identities is not readily
8 available to the IRS from other sources.

9 BACKGROUND

10 A. What virtual currency is and how it works

11 Virtual currency is a digital representation of value that functions as a medium of exchange, a
12 unit of account, and/or a store of value. Utzke Decl. ¶ 7. In some situations, virtual currency operates
13 like “traditional currency,” i.e., the coin and paper money of a country that is designated as legal tender.
14 However, it does not have legal tender status in any jurisdiction. *Id.* A virtual currency is considered
15 “convertible” if it has an equivalent value in traditional currency or acts as a substitute for traditional
16 currency. Convertible virtual currency can be digitally traded between users and can be purchased for,
17 or exchanged into, U.S. dollars, Euros, and other traditional or virtual currencies. *Id.*

18 In order to transact in a virtual currency system, a user would need to create a “wallet.” A wallet
19 is a digital computer file that contains information necessary to send and receive units of a virtual
20 currency. *Id.* at ¶ 8. When the wallet is created, a random wallet address is generated; this is a unique
21 alphanumeric identifier, which is conceptually similar to an e-mail address. *Id.*

22 A wallet holds any number of public keys and their associated private keys. The public key and
23 private key are conceptually similar to a user ID and a digital signature, respectively. In order to
24 exchange units of a virtual currency, a virtual currency user needs to electronically send their public key
25 to anyone with whom they want to transact. *Id.* at ¶ 9. The public key contains information that verifies
26 the wallet and the private key is used to authenticate a transaction. Only once the transaction is signed
27 by both parties, is the transaction complete. A completed transaction is then introduced to a network of

1 computers monitored by competing groups of people called miners. After computers on the network
2 confirm that a transaction is authentic, the transaction is posted to a “block” – a grouping of transactions.
3 When a specified number of confirmed transactions have been grouped, a block is formed. *Id.* at ¶ 11.
4 Miners then compete against each other to find a solution to a mathematical puzzle that depends on the
5 contents of the block; once a solution is found, that block will be added to the blockchain.

6 Miners maintain the integrity of the blockchain: a sequential public list of all transactions.
7 Miners also validate transactions that go into the blockchain with the motive of earning virtual currency.
8 *Id.* When a new block is added to the blockchain, new virtual currency coins are generated and awarded
9 to the miner who discovered the mathematical puzzle solution that allows the new block to be added to
10 the blockchain. The cycle then repeats. *Id.*

11 All transactions in a virtual currency blockchain can be viewed by the public on any computer
12 connected to the Internet. However, the blockchain transactional history only reveals the date, the time,
13 the amount (denominated in virtual currency), and the wallet addresses associated with a transaction.
14 The blockchain does not identify the actual identities of the wallet owners. *Id.* at ¶ 12.

15 There are nearly a thousand virtual currencies, but the most widely known virtual currency, and
16 largest by capitalization, is bitcoin. Other virtual currencies mimicking bitcoin using the blockchain
17 technology are known as alternative coins or altcoins for short. Just a few examples of altcoins are
18 Ethereum, Litecoin, Ripple, Feathercoin, and Dogecoin. *Id.* at ¶ 13.

19 **B. How virtual currency can be obtained and used**

20 In order to buy virtual currency with a medium of exchange denominated in a traditional
21 currency, such as a conventional check, credit card, wire, or Automated Clearing House (ACH)
22 electronic payment, a virtual currency user will have to find some way to transfer traditional currency to
23 someone who already has virtual currency and wishes to exchange it for traditional currency. *Id.* at ¶ 14.
24 In theory, this could be anyone with a virtual currency; in practice, this tends to be managed by
25 businesses called virtual currency exchangers that trade between virtual currencies and traditional
26 currencies. *Id.*

1 A virtual currency exchanger functions much like an exchanger for traditional currency except it
2 can exchange virtual currency for traditional currency or vice versa. Because virtual currency
3 exchangers may receive conventional checks, credit card, debit card, or wire transfer payments in
4 exchange for virtual currency, they are a link between virtual currency systems and conventional
5 banking and money-transmittal systems. *Id.* at ¶ 15.

6 A virtual currency exchanger may operate on one or more virtual currency platforms. The
7 exchange rate between traditional currency and virtual currency, and between different virtual currency
8 systems, is typically set by supply and demand, and different exchangers compete for business. Because
9 mechanisms exist for exchanging virtual currencies and traditional currencies, virtual currencies have
10 spread beyond online transfers between consumers; they are now used for purchases from brick-and-
11 mortar businesses as well as online merchants. *Id.* at ¶ 16.

12 Virtual currency exchangers may also provide wallet services, which allow a user to quickly
13 authorize virtual currency transactions with another user through the use of a traditional money account
14 held at the exchanger, similar to a margin account held with a stock broker. Wallet accounts are easily
15 accessed through a computer or mobile device like a smartphone. *Id.* at ¶ 17.

16 **C. How Coinbase operates in the virtual currency world**

17 Coinbase is a virtual currency exchanger headquartered in San Francisco, California. It offers
18 buy/sell trading functionality in 32 countries, maintains over 4.9 million wallets with wallet services
19 available in 190 countries, 3.2 million customers served, and \$2.5 billion exchanged in bitcoin. *Id.* at ¶
20 39. As of December 2015, Coinbase was the fourth largest exchanger globally of bitcoin into U.S.
21 dollars and the largest exchanger in the United States of bitcoin into U.S. dollars. Coinbase started
22 business in June 2012 as a digital wallet service. By October 2012, the company launched the ability to
23 buy and sell bitcoin through bank transfers. *Id.* By 2014, Coinbase had grown to one million users and
24 had formed partnerships with Overstock, Dell, Expedia, Dish Network, Time Inc., and Wikipedia and
25 assisted Stripe, Braintree, and PayPal in accepting bitcoin payments. *Id.* at ¶ 40.

26 As of December 2015, Coinbase has four main products: (1) an exchange for trading bitcoin and
27 fiat currency (fiat currency is legal tender that is backed by the government that issued it); (2) a wallet

1 for bitcoin storage and transactions; (3) an application programming interface (API) for developers and
2 merchants to build applications and accept bitcoin payments; and (4) “Shift Card,” the first U.S.-issued
3 bitcoin debit card. *Id.* at ¶ 42. The Shift Card is a VISA branded debit card that enables Coinbase users
4 in the United States (that reside in one of twenty-four states and Washington, D.C.) to spend bitcoin
5 anywhere VISA is accepted. *Id.*

6 **D. The IRS’s investigation into the use of virtual currency**

7 In 2013, at the request of the Senate Finance Committee, the Government Accountability Office
8 (“GAO”) issued a report regarding tax compliance issues relating to virtual currencies. *See* U.S. Gov’t
9 Accountability Office Report GAO-13-516, *Virtual Economies and Currencies: Additional IRS*
10 *Guidance Could Reduce Tax Compliance Risk*, <http://www.gao.gov/products/GAO-13-516>. Through
11 interviews with industry representatives, tax professionals, IRS officials and academics, the GAO report
12 identified several tax compliance risks associated with virtual currencies, including lack of third-party
13 reporting, lack of knowledge among taxpayers, and uncertainty over the characterization of gains
14 realized from virtual currencies. *Id.* at 14. The report found that “some taxpayers may use virtual
15 economies and currencies as a way to evade taxes. Because transactions can be difficult to trace and
16 many virtual economies and currencies offer some level of anonymity, taxpayers may use them to hide
17 taxable income.” *Id.* The report recommended that the IRS promulgate additional guidance tax
18 regarding convertible virtual currencies. *Id.* at 17.

19
20
21 In response to this report, in March 2014, the IRS issued Notice 2014-21, which describes how
22 the IRS applies U.S. tax laws and general tax principles to transactions involving virtual currency. *See*
23 Notice 2014-21 (Utzke Decl. Exhibit A). In Notice 2014-21, the IRS stated its position that virtual
24 currencies that can be converted into traditional currency are property for tax purposes, and a taxpayer
25 can have a gain or loss on the sale or exchange of a virtual currency, depending on the taxpayer’s cost to
26 purchase the virtual currency (that is, the taxpayer’s tax basis).
27

1 In May 2014, the GAO issued a second report that focused more broadly on the public policy
2 challenges posed by the use of virtual currencies. The report found that due in part to “the higher degree
3 of anonymity” offered by virtual currencies, they “may be attractive to parties seeking to . . . move or
4 conceal money obtained by illegal means.” See U.S. Gov’t Accountability Office Report GAO-14-496,
5 *Virtual Currencies’ Emerging Regulatory, Law Enforcement, and Consumer Protection Challenges*,
6 <http://www.gao.gov/products/GAO-14-496>; see also Omri Marian, *Are Cryptocurrencies Super Tax*
7 *Havens?*, 112 Mich. L. Rev. First Impressions 38 (2013) (concluding that virtual currencies share the
8 characteristics of tax havens because earning are not subject to taxation, taxpayer anonymity is
9 maintained, and their operation is not dependent upon financial institutions); Nicholas Godlove,
10 *Regulatory Overview of Virtual Currency*, 10 Okla. J. L. & Tech. 71 (2014) (identifying an advantage of
11 virtual currency as ease of use in illegal or sensitive transactions, including money laundering and tax
12 evasion); *Virtual Currency: Hearing Before the Committee on Banking, Housing, and Urban Affairs*,
13 *Subcommittee on National Security and International Trade and Finance with Subcommittee on*
14 *Economic Policy*, 113th Cong. (2013) (statement of Jennifer Shasky Calvery, Director Financial Crimes
15 Enforcement Network, United States Department of the Treasury) (virtual currency has the potential to
16 be exploited for money laundering because of its anonymity, accessibility, and regulatory challenges);
17 *Money Laundering in Digital Currencies*, United States Department of Justice National Drug
18 Intelligence Center, Product No. 2008-R0709-003 (June 2008) (virtual currencies provide an ideal
19 money laundering instrument because they facilitate payments without the concern for documentation,
20 identification, or law enforcement suspicion). Recently, the Treasury Inspector General for Tax
21 Administration issued a report on the increased use of virtual currencies and the associated risks of
22 reporting noncompliance in taxable transactions. Treasury Inspector General for Tax Administration
23 Reference Number: 2016-30-083, *As the Use of Virtual Currencies in Taxable Transactions Become*
24
25
26
27

1 *More Common, Additional Actions Are Needed to Ensure Taxpayer Compliance* (September 21, 2016)
2 <https://www.treasury.gov/tigta/auditreports/2016reports/201630083fr.pdf>.

3 The IRS has continued to gather information regarding the tax compliance issues posed by the
4 use of virtual currency. Senior Revenue Agent Utzke identified and interviewed three taxpayers who
5 had used virtual currencies as a means of evading taxes. Utzke Decl. ¶¶ 30, 34. Two of these taxpayers
6 were corporate entities with annual revenues of several million dollars that bought and sold bitcoins. *Id.*
7 at ¶ 34. Both entities had wallet accounts at Coinbase and attempted to conceal bitcoin transactions as
8 technology expenses on their tax returns. *Id.* The third taxpayer diverted his income to an offshore tax
9 haven and used virtual currency to repatriate his assets without government detection. *Id.* at ¶ 31. In
10 addition to these, Senior Revenue Agent Utzke's research identified individuals prosecuted and
11 convicted of federal crimes for anti-money laundering and/or operating an unlicensed money services
12 business involving virtual currency transactions. *Id.* at ¶ 35. IRS records indicate that these defendants
13 never reported to the IRS their virtual currency transactions. *Id.*

14
15
16 Senior Revenue Agent Utzke also identified a host of factors that increase the likelihood that the
17 proposed summons will reveal the identities of delinquent taxpayers. These include:

- 18 • The fact that virtual currency transactions are subject to fewer third-party reporting
19 requirements than conventional forms of payment, which in the IRS's experience,
20 significantly increases tax underreporting (*id.* at ¶ 37);
- 21 • The relatively high degree of anonymity associated with virtual currency transactions
22 (*id.* at ¶ 38);
- 23 • A public perception that virtual currency can be used to evade taxes, including at least
24 one instance of open acknowledgement by bitcoin users that tax evasion is a sought-
25 after feature of using bitcoins (*id.* at ¶ 35 citing "Bitcoin Celebrated As Way To
26 Avoid Taxes," Huffington Post (April 16, 2013) available at
27 www.huffingtonpost.com/2013/04/16/bitcoin-taxes_n_3093182.html (accessed
November 16, 2016)); and
- Failure among virtual currency users to afford virtual currency transactions the proper
tax treatment, including the proper valuation of such transactions (*id.* at ¶ 29).

1 To further its investigation into the identities of U.S. taxpayers who have failed to disclose tax
2 information relating to their participation in virtual currency transactions, the IRS is seeking to issue a
3 summons that will allow it to identify U.S. persons who have not properly reported income arising from
4 their use of virtual currency. The John Doe class, therefore, is as follows:

5
6 United States persons who, at any time during the period January 1, 2013,
7 through December 31, 2015, conducted transactions in a convertible
8 virtual currency as defined in IRS Notice 2014-21.

9 Utzke Decl. Exhibit B. This summons seeks account registration records and any Know-Your-Customer
10 due diligence performed for each account owned or controlled by a user during the stated period, the
11 associated transaction records, account statements, and records of payments made and processed for
12 these users. These types of documents should reveal the identity of account holders, as well as amounts
13 of transactions from those accounts. As discussed below, the summons and its John Doe class are
14 authorized and appropriate under 26 U.S.C. § 7609.

14 ARGUMENT

15 The Summons Meets the Requirements for an IRS “John Doe” Summons

16 One of the primary functions of the IRS is to review and audit tax returns submitted by U.S.
17 taxpayers to ensure that all applicable taxes have been paid. Accordingly, § 7601 of the Internal
18 Revenue Code requires the Secretary of the Treasury to “cause officers or employees of the Treasury
19 Department to proceed, from time to time, through each internal revenue district and inquire after and
20 concerning all persons therein who may be liable to pay any internal revenue tax.” 26 U.S.C. § 7601.
21 To aid the IRS in carrying out this function, § 7602 authorizes the Secretary to summon records and
22 testimony that may be relevant or material to an investigation. 26 U.S.C. § 7602. Specifically, § 7602,
23 from which the IRS derives its principal information-gathering powers, authorizes the IRS:

24 [f]or the purpose of ascertaining the correctness of any return, making a
25 return where none has been made, [or] determining the liability of any
26 person for any internal revenue tax . . . [t]o summon . . . any person having
27 possession, custody, or care of books of account containing entries relating
to the business of the person liable for tax . . . , or any other person the
Secretary may deem proper, to appear . . . and to produce such books,
papers, records, or other data, and to give such testimony, under oath, as
may be relevant or material to such inquiry.

1 In passing § 7602, Congress intended “to provide the Secretary with broad latitude to adopt
2 enforcement techniques helpful in the performance of his tax collection and assessment responsibilities.”
3 *United States v. Euge*, 444 U.S. 707, 715 n.9 (1980). The Supreme Court has noted that § 7602 forms
4 the “centerpiece” of the IRS’s “expansive information-gathering authority.” *United States v. Arthur*
5 *Young & Co.*, 465 U.S. 805, 816 (1984); see *United States v. Clarke*, 134 S. Ct. 2361, 2367 (2014)
6 (“And such an investigatory tool, we have recognized, is a crucial backstop in a tax system based on
7 self-reporting.”). “Under 26 U.S.C. § 7602, the IRS has wide latitude to issue a summons for
8 investigatory purposes.” *Reiserer v. United States*, 479 F.3d 1160 1166 (9th Cir. 2007) (citing *United*
9 *States v. Jose*, 131 F.3d 1325, 1327 (9th Cir. 1997) (en banc)). ““To establish a need for judicial
10 enforcement, this showing need only be minimal [T]he statute must be read broadly in order to
11 ensure that the enforcement powers of the IRS are not unduly restricted.”” *Jose*, 131 F.3d at 1327-28
12 (quoting *Liberty Fin. Servs. v. United States*, 778 F.2d 1390, 1392 (9th Cir. 1985)); see also *Arthur*
13 *Young*, 465 U.S. at 816 (“the very language of § 7602 reflects . . . a congressional policy choice *in favor*
14 *of disclosure* of all information relevant to a legitimate IRS inquiry. In light of this explicit statement by
15 the Legislative Branch, courts should be chary in recognizing exceptions to the broad summons
16 authority of the IRS”).

17 The IRS’s authority to issue John Doe summonses to banks or other depositories to discover the
18 identity of individuals who may have failed to disclose all of their income was expressly recognized by
19 the Supreme Court in *United States v. Bisceglia*, 520 U.S. 141 (1975), and later codified in § 7609(f),
20 which provides:

21 Any summons . . . which does not identify the person with respect to
22 whose liability the summons is issued may be served only after a court
proceeding in which the Secretary establishes that –

- 23 (1) the summons relates to the investigation of a particular person or
24 ascertainable group or class of persons,
- 25 (2) there is a reasonable basis for believing that such person or group
26 or class of persons may fail or may have failed to comply with any
27 provision of any internal revenue law, and
- (3) the information sought to be obtained from the examination of the
records or testimony (and the identity of the person or persons with
respect to whose liability the summons is issued) is not readily
available from other sources.

1 26 U.S.C. § 7609(f). The Court’s determination as to whether the IRS has met the requirements under §
2 7609(f) for the issuance of a John Doe summons “shall be made ex parte and shall be made solely on the
3 petition and supporting affidavits.” 26 U.S.C. § 7609(h)(2).

4 Here, the Court should authorize service of the summons because all three statutory prerequisites
5 have been met. First, the summons relates to the investigation of an ascertainable group or class of
6 persons, namely U.S. taxpayers who have conducted transactions in convertible virtual currency.
7 Second, there is a reasonable basis for believing that U.S. persons who conducted such transactions may
8 have failed to report income to the IRS, thereby violating one or more provisions of the internal revenue
9 laws. Third, the information sought is not readily available to the IRS from other sources.

10 **A. The IRS investigation concerns an ascertainable class**

11 The summons here clearly relates to an investigation of an ascertainable group of people, which
12 the summons defines as “United States persons who, at any time during the period January 1, 2013,
13 through December 31, 2015, conducted transactions in a convertible virtual currency as defined in IRS
14 Notice 2014-21.” Utzke Decl. Ex. B. In other words, the summons relates to the IRS’s investigation of
15 U.S. taxpayers who transacted in virtual currency between 2013 through 2015. This is sufficient to
16 establish that the summons relates to an ascertainable group of persons.

17 Although neither the statute nor the case law further define the term “ascertainable group or class
18 of persons” as it is used in § 7607(f), cases have endorsed the service of John Doe summonses seeking
19 information on a group of people defined in a similar manner (*i.e.*, by the type of transaction they
20 engaged in and the date of the transaction. *See, e.g.*:

- 21
- 22 • *In re Tax Liabilities of John Does, United States Taxpayers Who, at Any Time During the*
23 *Years Ended December 31, 2004 Through December 31, 2012, Directly or Indirectly*
24 *Had Interests In or Signature or Other Authority With Respect to Any Financial Accounts*
25 *Maintained At, Monitored By, Or Managed Through CIBC FirstCaribbean International*
26 *Bank Limited (Collectively FCIB) or Other Financial Institutions FCIB Permitted To*
27

1 *Transact Client Business Through its United States Correspondent Account at Wells*
2 *Fargo Bank, N.A., Order Granting Ex Parte* Petition for Leave to Serve “John Doe”
3 Summons, Docket No. 6, Case No. 13-CV-1938 (TEH) (N.D. Cal. Apr. 29, 2013)
4 (holding that IRS investigation related to ascertainable group of people for “John Doe”
5 summons to Wells Fargo Bank, N.A. seeking documents establishing the identity of U.S.
6 taxpayers for the years ended December 31, 2004 through December 31, 2012, who had
7 interests in or signature or other authority with respect to financial accounts that FCIB
8 permitted to transact business through its correspondent account at Wells Fargo Bank,
9 N.A. (a copy of this Order is attached herewith);

- 11 • *In re Tax Liabilities of John Does Who from December 31, 2002 through December 21,*
12 *2010 had Interests in Financial Accounts Managed through HSBC India, Order Granting*
13 *Ex Parte* Petition for Leave to Serve “John Doe” Summons, Docket No. 10, Case No. 11-
14 CV-1686 (LB) (N.D. Cal. Apr. 7, 2011) (holding that IRS investigation related to an
15 ascertainable group of people for “John Doe” summons on HSBC Bank USA, N.A.
16 seeking documents establishing the identity of U.S. taxpayers “who at any time during
17 the years ended December 31, 2002 through December 31, 2010, directly or indirectly
18 had interests in or signature or other authority ... with respect to any financial accounts
19 maintained at, monitored by, or managed through [HSBC India]”)(a copy of this Order is
20 attached herewith);
- 21 • *In re Tax Liabilities of John Does Who from January 1, 2005 through December 31,*
22 *2010, Transferred Real Property in the State of California, 2011 WL 6302284, at *2,*
23 Case No. 2:10-mc-00130 (E.D. Cal. Dec. 15, 2011) (holding that IRS investigation
24 related to an ascertainable group of people where the summons “squarely particularize[d]
25 the individuals sought from the general public” by identifying the class as California
26 the individuals sought from the general public” by identifying the class as California
27

1 residents who between 2005 and 2010 were involved in certain real property transfers for
2 little or no consideration);

- 3
- 4 • *In re Tax Liabilities of John Does*, 2003 WL 22953182, at * 1, Case No. 03-22793-CIV
5 (S.D. Fla. Oct. 30, 2003) (holding that IRS investigation related to an ascertainable group
6 of people where summons identified class as U.S. taxpayers who between 1997 and 2003
7 sold credit insurance policies where the policies were reinsured with entities in the Turks
8 and Caicos Islands).

9 Here, similarly, the IRS has established that the investigation underlying the summons relates to an
10 “ascertainable group or class of persons.” 26 U.S.C. § 7609(f).

11 **B. There is a reasonable basis to believe that the unknown persons may fail, or may**
12 **have failed, to comply with the internal revenue laws**

13 The IRS has a reasonable basis to believe that the unknown individuals who comprise the group
14 of persons set forth in the summons failed or may have failed to comply with provisions of the internal
15 revenue laws. When enacting § 7609(f), Congress did “not intend to impose an undue burden on the
16 [IRS] in connection with obtaining a court authorization to serve this type of summons.” H. Rep. No.
17 940658, 94th Cong., 1st Sess., at 311. Accordingly, to meet the “reasonable basis” prong, the IRS need
18 only show that a transaction has occurred that is “of such a nature as to be reasonably suggestive of the
19 possibility that the correct tax liability with respect to that transaction may not have been reported.” *Id.*
20 Courts, therefore, have interpreted this requirement narrowly as intended only “to prevent the Service
21 from exercising its summons power in an arbitrary or quixotic manner.” *In re Tax Liabilities of John*
22 *Does, Members of the Columbus Trade Exchange in the Years 1977 and 1978*, 671 F.2d 977, 980 (6th
23 Cir. 1982) (authorizing John Doe summons to barter exchange organization seeking identities of barter
24 transaction participants for two tax years).

25 Here, based on the IRS’s experience, U.S. taxpayers have made use of virtual currencies to evade
26 the reporting and payment of taxes. *See* Utzke Decl. at ¶¶ 30, 34. As described above, Senior Revenue
27 Agent Utzke is aware of three instances of U.S. taxpayers using virtual currency transactions to conceal

1 income, two involve Coinbase. *Id.* There have also been criminal proceedings in the United States in
2 which the defendants were proved or alleged to have used virtual currencies for money laundering
3 and/or the operation of an unlicensed money services business. *Id.* at ¶ 35. IRS records indicate that
4 these defendants never reported to the IRS their virtual currency transactions. *Id.*; *see, e.g., Sarah*
5 *Gruber, Trust, Identity, and Disclosure: Are Bitcoin Exchanges the Next Virtual Havens for Money*
6 *Laundering and Tax Evasion*, 32 *Quinnipiac L. Rev.* 135 (2013) (“money laundering naturally pairs well
7 with shirking one’s tax responsibility”). Finally, there are additional factors indicating the likely
8 incidence of tax delinquency involving virtual currency, including a lack of third-party information
9 reporting; relative anonymity of the transactions; a public perception that tax evasion is possible with
10 virtual currency; and a failure among virtual currency users to afford virtual currency transactions the
11 proper tax treatment, including the proper valuation of such transactions. *Id.* at ¶ 29. These facts,
12 coupled with the IRS’s experience (*Id.* at ¶¶ 30, 34, 35) with other modes of payment not accompanied
13 by third-party reporting, show that U.S. taxpayers utilizing Coinbase may have failed to report income
14 and other information required under the internal revenue laws.

15 This information is sufficient to establish that the IRS has a reasonable basis for issuing the
16 summons. *See, e.g., United States v. Kersting*, 891 F.2d 1407 (9th Cir. 1989) (“John Doe” summons
17 enforced after district court found “the existence of at least one case in which a Tax Court found some of
18 Kersting’s programs to be abusive of the tax code.” 891 F.2d at 1409. The Ninth Circuit affirmed:
19 “There was ample basis for believing that the persons about whom records were sought had not
20 complied with the tax law.” 891 F.2d at 1412); *United States v. Pittsburgh Trade Exchange, Inc.*, 644
21 F.2d 302, 306 (3d Cir. 1981) (IRS agent’s testimony that transactions of the type the summoned party
22 arranged for its clients were “inherently susceptible ... to tax error” sufficient to meet “reasonable basis”
23 prong); *United States v. Ritchie*, 15 F. 3d 592, 601 (6th Cir. 1994) (clients’ payment for legal services
24 with large amounts of cash provided a reasonable basis to issue a “John Doe” summons). Here, as
25 Senior Revenue Agent Utzke’s Declaration demonstrates, the IRS not only has a suspicion that the John
26 Doe class includes U.S. taxpayers who are not complying with the law—it knows that the class in the
27 past included such violators, and very likely includes others.

1 **C. The information sought about the John Doe class is not readily available from other**
2 **sources**

3 Finally, the information the IRS seeks through the summons is not readily available from any
4 other sources. The only entities possessing information relating to virtual currency transactions that
5 identify the persons involved in the transactions, and hold material relating to the transactions, are the
6 exchangers and any intermediaries. Therefore, it is logical to summon a party known to have some role
7 in the transaction, here Coinbase. *See also Matter of Oil & Gas Producers Having Processing*
8 *Agreements with Kerr-McGee Corp.*, 500 F. Supp. 440, 442 (W.D. Okla. 1980) (information may have
9 been available from other sources, however it was more readily available from the centrally located
10 summoned party and thus § 7609(f) element is satisfied).

11 In circumstances analogous to the present context, courts have recognized that the identities of
12 U.S. taxpayers were not readily available except from financial entities that possessed records regarding
13 suspicious transactions. *See, e.g., In re Tax Liabilities of John Does Who During the Years Ended*
14 *December 31, 1998 and 1999, Had Signatory Authority Over American Express or Master Card Credit,*
15 *Charge or Debit Cards*, Case No. 00-cv-3919 (S.D. Fla. Oct. 30, 2000) (identity of taxpayers not readily
16 available except from American Express and MasterCard International, Inc., who possessed credit card
17 information for cards issued by offshore banks) (a copy of this Order is attached herewith); *Pittsburgh*
18 *Trade Exchange, Inc.*, 644 F.2d at 306 (identities of taxpayers who engaged in suspicious barter
19 transactions could not be obtained except from organizing body of barter exchange).

20 * * *

1 **CONCLUSION**

2 The United States has met the requirements of 26 U.S.C. § 7609(f) in order to be allowed to
3 serve its John Doe summons on Coinbase, Inc. Accordingly, the United States' Petition should be
4 granted.

5 Dated this 17th day of November, 2016.

6 CAROLINE D. CIRAULO
7 Principal Deputy Assistant Attorney General

8 /s/ Jeremy N. Hendon

9 /s/ Amy Matchison

10 JEREMY N. HENDON

11 AMY MATCHISON

12 Trial Attorneys, Tax Division

13 U.S. Department of Justice

14 BRIAN J. STRETCH

15 United States Attorney

16 Northern District of California

17 /s/ Colin C. Sampson

18 COLIN C. SAMPSON

19 Assistant United States Attorney,

20 Tax Division

RECEIVED
2013 APR 29 A 9 48
RICHARD W. WIEKING
CLERK, U.S. DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

UNITED STATES DISTRICT COURT FOR THE
NORTHERN DISTRICT OF CALIFORNIA
SAN FRANCISCO DIVISION

IN THE MATTER OF THE TAX
LIABILITIES OF:
JOHN DOES, United States taxpayers who,
at any time during the years ended
December 31, 2004, through December 31,
2012, directly or indirectly had interests in or
signature or other authority (including
authority to withdraw funds, trade or give
instructions or receive account statements,
confirmations or other information, advice or
solicitations) with respect to any financial
accounts maintained at, monitored by, or
managed through CIBC FirstCaribbean
International Bank Limited, its predecessors,
subsidiaries, and affiliates (collectively,
FCIB) and financial accounts maintained at,
monitored by, or managed through other
financial institutions that FCIB permitted to
transact client business through its United
States correspondent account at Wells Fargo
Bank, N.A.

Civil Number:
CV 13 1938

TEH

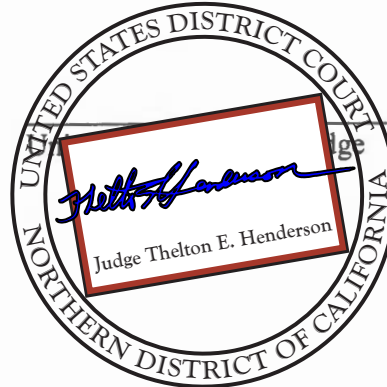
~~PROPOSED~~ ORDER GRANTING *EX*
PARTE PETITION FOR LEAVE TO
SERVE "JOHN DOE" SUMMONS

THIS MATTER is before the Court upon the United States of America's "*Ex Parte* Petition for Leave to Serve "John Doe" Summons" (the "Petition"). Based upon a review of the Petition and supporting documents, the Court has determined that the "John Doe" summons to Wells Fargo Bank, N.A. relates to the investigation of an ascertainable group or class of persons, that there is a reasonable basis for believing that such group or class of persons has failed or may have failed to comply with any provision of any internal revenue laws, and that the information sought to be obtained from the

1 examination of the records or testimony (and the identities of the persons with respect to whose liability
2 the summons is issued) are not readily available from other sources. It is therefore:

3 ORDERED AND ADJUDGED that the Internal Revenue Service, through Revenue Agent
4 Cheryl R. Kiger or any other authorized officer or agent, may serve an Internal Revenue Service "John
5 Doe" summons upon Wells Fargo Bank, N.A. in substantially the form as attached as Exhibit A to
6 Declaration of Cheryl R. Kiger. A copy of this Order shall be served together with the summons.

7 IT IS SO ORDERED this 29th day of April, 2013.



11 Presented by:

12 KATHRYN KENEALLY
13 Assistant Attorney General

14 JEREMY N. HENDON (ORBN 982490)
15 Trial Attorney
16 United States Department of Justice, Tax Division
17 P.O. Box 683, Ben Franklin Station
18 Washington, D.C. 20044

19 MELINDA HAAG
20 United States Attorney
21 THOMAS MOORE (ALBN4305 078T)
22 Assistant United States Attorney
23 Chief, Tax Division
24 11th Floor Federal Building
25 450 Golden Gate Avenue, Box 36055
26 San Francisco, California 94102
27 *Of Counsel*
28

1 Melinda L. Haag (CaSBN 132612)
United States Attorney
2 STUART D. GIBSON (MnSBN 34587)
Senior Litigation Counsel
3 Stuart.D.Gibson@usdoj.gov
Tax Division, U.S. Department of Justice
4 P.O. Box 403
Washington, DC 20044
5 Tel: (202) 307-6586
Fax: (202) 307-2504
6 Attorneys for United States of America

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RICHARD W. WIEKING
CLERK, U.S. DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

7 UNITED STATES DISTRICT COURT
8
9 NORTHERN DISTRICT OF CALIFORNIA
10
11 SAN FRANCISCO DIVISION

12 IN THE MATTER OF THE TAX
LIABILITIES OF:

Case No. **11 1686**
LB

13 JOHN DOES, United States taxpayers, who)
14 at any time during the years ended December)
31, 2002 through December 31, 2010,)
15 directly or indirectly had interests in or)
signature or other authority (including)
16 authority to withdraw funds; trade or give)
instructions or receive account statements,)
17 confirmations, or other information, advice)
18 or solicitations) with respect to any financial)
accounts maintained at, monitored by, or)
19 managed through The Hongkong and)
20 Shanghai Banking Corporation Limited in)
India (HSBC India).)
21

**[PROPOSED] ORDER
GRANTING EX PARTE
PETITION FOR LEAVE TO
SERVE "JOHN DOE" SUMMONS**

22
23
24 THIS MATTER is before the Court upon the United States of America's "*Ex Parte*
25 Petition for Leave to Serve John Doe Summons." Based upon a review of the Petition and exhibits
26 thereto, the Court has determined that the "John Doe" summons to HSBC Bank USA, N.A. relates
27

1 to the investigation of an ascertainable group or class of persons, that there is a reasonable basis for
2 believing that such group or class of persons may fail or may have failed to comply with any
3 provision of any internal revenue law, and that the information sought to be obtained from the
4 examination of the records or testimony (and the identities of the persons with respect to whose
5 liability the summons is issued) are not readily available from other sources. It is therefore—

7 ORDERED AND ADJUDGED that the Internal Revenue Service, through Revenue Agent
8 Daniel Reeves or any other authorized officer or agent, may serve an Internal Revenue Service “John
9 Doe” summons upon HSBC Bank USA, N.A. in substantially the form as attached as Exhibit A to
10 the Declaration of Daniel Reeves. A copy of this Order shall be served together with the summons.

12 DONE AND ORDERED this 7 day of April, 2011.

14 
15 UNITED STATES DISTRICT JUDGE

16 Copies furnished to:

17 Stuart D. Gibson
18 Senior Litigation Counsel
19 Tax Division
20 U.S. Department of Justice
21 P.O. Box 403
22 Washington, DC 20044
23 Melinda L. Haag
24 United States Attorney
25 Northern District of California
26 Philip Burton United States Courthouse
27 450 Golden Gate Avenue
28 San Francisco, CA 94102

Phyllis J. Hamilton
United States District Judge

FILED by *[Signature]* D.C.
OCT 30 2000
CLARENCE MADDOX
CLERK U.S. DIST. CT.
S. D. OF FLA. - MIAMI

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

MIAMI DIVISION

CASE NO. 00-3919-CIV-JORDAN

IN THE MATTER OF THE TAX)
LIABILITIES OF:)

JOHN DOES, United States taxpayers who,)
during the years ending December 31, 1998)
and 1999, had signatory authority over)
AMERICAN EXPRESS or MASTERCARD)
credit, charge, or debit cards issued by or)
through, or for which payment was received)
from, banks in Antigua and Barbuda, the)
Bahamas or the Cayman Islands, or issued to)
persons or entities in Antigua and Barbuda,)
the Bahamas, or the Cayman Islands)

**ORDER GRANTING EX PARTE PETITION FOR LEAVE TO FILE JOHN DOE
SUMMONSES**

The United States of America has filed a petition for leave to file John Doe summonses pursuant to 26 U.S.C. § 7609(f). I have considered the petition, the memorandum of law, and the supporting affidavits and exhibits ex parte, as required by 26 U.S.C. § 7609(h)(2). I find that the United States has established the following.

First, the summonses relate to the investigation of an ascertainable group or class or persons, i.e., American Express and MasterCard signatories whose charge, debit, or credit cards were issued by or through, or paid for from funds drawn on, banks in Antigua and Barbuda, the Bahamas, or the Cayman Islands during 1998 and 1999. *See* 26 U.S.C. § 7609(f)(1).

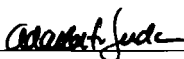
Second, a reasonable basis exists for believing that such individuals may fail or may have failed to comply with provisions of the internal revenue laws. *See* 26 U.S.C. § 7609(f)(2).

Third, the information to be obtained from the testimony and examination of the records (and the identities of the persons with respect to whose liability the summonses are issued) is not readily available from other sources. *See* 26 U.S.C. § 7609(f)(3).

[Handwritten signature]

Accordingly, the Internal Revenue Service, through an authorized officer or agent, may serve John Doe summonses, in the forms attached to the petition as Exhibits 1 & 2, on American Express Travel Related Services Co. and MasterCard International.

DONE and ORDERED in chambers in Miami, Florida, this 30th day of October, 2000.



Adalberto Jordan
United States District Judge

Copy to: José Francisco DeLeon, DOJ (Fax: 202-514-9868)
Grisel Alonso, AUSA

1 CAROLINE D. CIRAULO
Principal Deputy Assistant Attorney General

2
3 JEREMY N. HENDON (ORBN 982490)
AMY MATCHISON (CABN 217022)
4 Trial Attorneys
United States Department of Justice, Tax Division
5 P.O. Box 683, Ben Franklin Station
Washington, D.C. 20044
6 Telephone: (202) 353-2466
(202) 307-6422
7 Fax: (202) 307-0054
8 E-mail: Jeremy.Hendon@usdoj.gov
Amy.T.Matchison@usdoj.gov
9 Western.Taxcivil@usdoj.gov

10 BRIAN J. STRETCH (CABN 163973)
United States Attorney
11 THOMAS MOORE (ALBN 4305-O78T)
Chief, Tax Division
12 COLIN C. SAMPSON (CABN 249784)
Assistant United States Attorney
13 450 Golden Gate Avenue, 11th Floor
14 San Francisco, California 94102
15 Telephone: (415) 436-7020
Email: Colin.Sampson@usdoj.gov

16 Attorneys for United States of America

17 UNITED STATES DISTRICT COURT FOR THE
18 NORTHERN DISTRICT OF CALIFORNIA

19 IN THE MATTER OF THE TAX)
20 LIABILITIES OF:)
)
21 JOHN DOES, United States persons who,)
at any time during the period January 1, 2013,)
22 through December 31, 2015, conducted)
transactions in a convertible virtual currency)
23 as defined in IRS Notice 2014-21.)
)
24 _____)

Civil Number:

**DECLARATION OF SENIOR REVENUE
AGENT DAVID UTZKE IN SUPPORT
OF EX PARTE PETITION FOR LEAVE
TO SERVE "JOHN DOE" SUMMONS**

25 I, David Utzke, pursuant to 28 U.S.C. § 1746, declare and state:

26 1. I am employed as a duly commissioned Senior Revenue Agent by the Internal Revenue
27 Service and am assigned to the IRS's Offshore Compliance Initiatives (OCI) program. I am assigned to

Declaration Of R/A David Utzke
In Support of *Ex Parte* Petition
For Leave to Serve "John Doe" Summons

1 work on virtual currency issues. The OCI program develops projects, methodologies, and techniques for
2 identifying United States taxpayers who are involved in abusive offshore transactions and financial
3 arrangements for tax-avoidance purposes. Although this program typically involves abusive offshore
4 transactions and financial arrangements, the virtual currency issues I have been working on are not
5 limited to offshore activities.

6 2. I have been an Internal Revenue Agent since January 2008. From approximately October
7 2009 until April 2012, I worked as an International Individual Compliance field agent specializing in
8 offshore investigations. After that, for approximately one and a half years, I was assigned as a Technical
9 Specialist on the Jurisdiction-to-Tax and U.S. Investment Activities IRS International Practice Network
10 where I worked on the emerging issue of virtual currencies. In October 2013, I was assigned to work in
11 the IRS OCI program. I am currently assigned to investigate tax non-compliance connected with the use
12 of virtual currencies.

13 3. I graduated from the Federal Law Enforcement Training Center's advanced course of
14 Economic Crimes Investigation and Analysis. I also hold a certificate of training in Open Source
15 Intelligence research, which includes both surface web and deep web investigations. My academic
16 credentials include a doctorate with relevant study in International Finance and Economics and a
17 master's in Forensic Accounting and International Finance. I am a Certified Fraud Examiner and
18 Certified Forensic Interviewer. My continuing professional education training each year focuses on
19 tracking hidden offshore assets. I am an occasional lecturer at the Thomas Jefferson School of Law in
20 San Diego, California, on the topic of virtual currencies. In addition, I develop and deliver training
21 within the IRS on the topic of virtual currencies.

22 **I. BACKGROUND REGARDING VIRTUAL CURRENCIES**

23 4. In 2013, at the request of the Senate Finance Committee, the Government Accountability
24 Office (GAO) completed a study of the use of virtual currency within virtual economies (such as on-line
25 role playing games) and outside of virtual economies. Through interviews with industry representatives,
26 tax professionals, IRS officials and academics, GAO identified several tax compliance risks associated
27 with virtual currencies, ranging from lack of knowledge of tax requirements and uncertainty over how to

1 report virtual currency transactions, to deliberate underreporting of income and tax evasion. *See* U.S.
2 Gov't Accountability Office, GAO-13-516, Virtual Economies and Currencies: Additional IRS
3 Guidance Could Reduce Tax Compliance Risks (2013).

4 5. As the organization responsible for enforcing and administering the tax laws of the
5 United States, the IRS has determined that transactions in a virtual currency that is convertible into real
6 currency have tax consequences that may result in a tax liability.

7 6. In March 2014, the IRS issued Notice 2014-21, which describes how the IRS applies U.S.
8 tax principles to transactions involving virtual currency. A copy of Notice 2014-21 is attached as Exhibit
9 A. In Notice 2014-21, the IRS stated its position: virtual currencies that can be converted into traditional
10 currency are property for tax purposes, and a taxpayer can have a gain or loss on the sale or exchange of
11 a virtual currency, depending on the taxpayer's cost to purchase the virtual currency (that is, the
12 taxpayer's tax basis).

13 **A. How virtual currency works**

14 7. Virtual currency is a digital representation of value that functions as a medium of
15 exchange, a unit of account, and a store of value. In some situations, virtual currency operates like
16 "traditional currency," *i.e.*, the coin and paper money of a country that is designated as legal tender.
17 However, it does not have legal tender status in any jurisdiction. A virtual currency is "convertible" if it
18 has an equivalent value in traditional currency or acts as a substitute for traditional currency.
19 Convertible virtual currency can be digitally traded between users and can be purchased for, or
20 exchanged into, U.S. dollars, Euros, and other traditional or virtual currencies.

21 8. In a virtual currency system, a user creates a "wallet." A wallet is a digital computer file
22 that contains information used in sending and receiving units of a virtual currency. When the wallet is
23 created, a random wallet address is generated; this is a unique alphanumeric identifier, which is
24 conceptually similar to an e-mail address. Basic wallets can be created free of charge.

25 9. A wallet holds any number of public keys with their associated private keys. The public
26 key and private key are conceptually similar to a user ID and a digital signature, respectively. A virtual
27 currency user will electronically send their public key to anyone with whom he or she wants to exchange

1 units of a virtual currency. The public key contains information that verifies the wallet and the private
2 key used to authenticate a transaction. If the transaction is signed by both parties, the transaction is
3 complete.

4 10. A completed transaction is then introduced to a network of computers monitored by
5 competing groups of people called miners. Miners maintain the integrity of a sequential public list of all
6 transactions called the blockchain; miners also validate transactions that go into the blockchain with the
7 motive of earning virtual currency.

8 11. After computers on the network confirm that a transaction is authentic, the transaction is
9 posted to a “block” – a grouping of transactions. When a specified number of confirmed transactions
10 have been grouped, a block is formed. Miners then compete against each other to find a solution to a
11 mathematical puzzle that depends on the contents of the block; once a solution is found, that block will
12 be added to the blockchain. When a new block is added to the blockchain, new virtual currency coins are
13 generated and awarded to the miner who discovered the mathematical puzzle solution that allows the
14 new block to be added to the blockchain. The cycle then repeats.

15 12. All transactions in a virtual currency blockchain can be viewed by the public on any
16 computer connected to the Internet. However, the blockchain transactional history only reveals the date,
17 the time, the amount (denominated in virtual currency), and the wallet addresses associated with a
18 transaction. The blockchain does not identify the actual identities of the wallet owners.

19 13. There are nearly a thousand virtual currencies, but the most widely known virtual
20 currency, and largest by capitalization, is bitcoin. Other virtual currencies mimicking bitcoin using the
21 blockchain technology are known as alternative coins or altcoins for short. Just a few examples of
22 altcoins are Ethereum, Litecoin, Ripple, Feathercoin, and Dogecoin.

23 **B. How virtual currency can be obtained and utilized**

24 14. In order to buy virtual currency with a medium of exchange denominated in a traditional
25 currency, such as a conventional check, credit card, wire, Automated Clearing House (ACH) electronic
26 payments, the virtual currency user will have to find some way to transfer traditional currency to
27 someone who already has virtual currency and wishes to exchange it for traditional currency. This

1 exchange can occur with anyone holding a virtual currency, but tends to be handled through businesses
2 called virtual currency exchangers that trade between virtual currencies and traditional currencies.

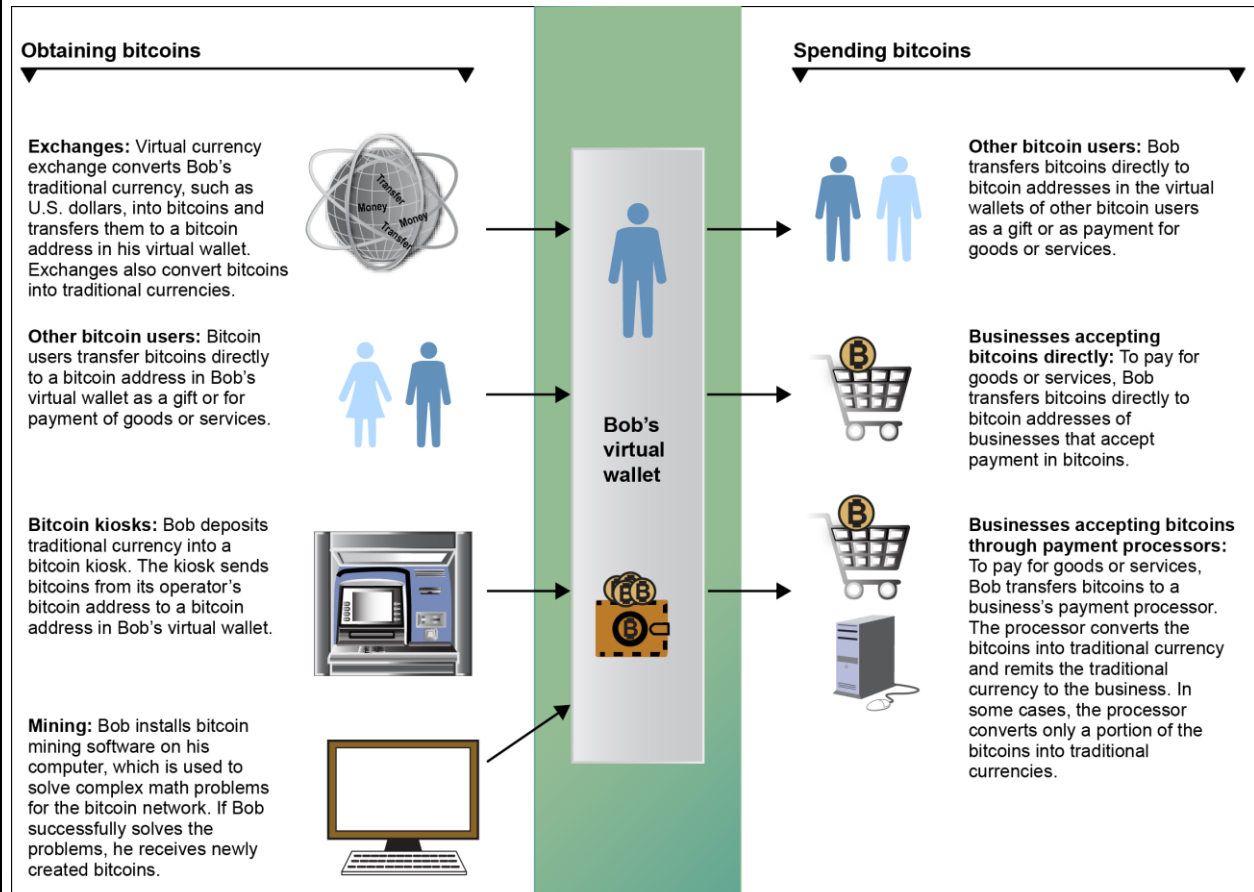
3 15. A virtual currency exchanger functions much like an exchanger for traditional currency
4 except it can exchange virtual currency for traditional currency or vice versa. Because virtual currency
5 exchangers may receive conventional checks, credit card, debit card, or wire transfer payments in
6 exchange for virtual currency, they are a link between virtual currency systems and conventional
7 banking and money-transmittal systems.

8 16. A virtual currency exchanger may operate on one or more virtual currency platforms.
9 The exchange rate between traditional currency and virtual currency, and between different virtual
10 currency systems, is typically set by supply and demand, and different exchangers compete for business.
11 Because mechanisms exist for exchanging virtual currencies and traditional currencies, virtual
12 currencies have spread beyond online transfers between consumers; they are now used for purchases
13 from brick-and-mortar businesses as well as online merchants.

14 17. Virtual currency exchangers may also provide wallet services, which allow a user to
15 quickly authorize virtual currency transactions with another user through the use of a traditional money
16 account held at the exchanger similar to a margin account held with a stock broker. Wallet accounts are
17 easily accessed through a computer or mobile device like a smartphone. A wallet can be held in a
18 number of different ways, but millions of users have a wallet provided by an exchanger.

19 18. Some virtual currency exchangers are registered with the U.S. Treasury Department
20 Financial Crimes Enforcement Network (FinCEN) as Money Services Businesses. Registration carries
21 with it the requirement of following Anti-Money Laundering (AML) rules, including Know Your
22 Customer (KYC) rules. KYC principles require a registered exchanger to confirm and document the
23 identities of its customers and to relate each account to a known beneficial owner.

19. The graph below illustrates some of the ways in which individuals can obtain and spend bitcoins.



Source: GAO.

U.S. Gov't Accountability Office, GAO-14-496, Virtual Currencies' Emerging Regulatory, Law Enforcement, and Consumer Protection Challenges (2014), p. 8.

C. Tax compliance concerns associated with the use of virtual currencies

20. The primary virtual currency receiving attention regarding taxable transactions and tax compliance is bitcoin because it is the most traded virtual currency and the largest by capitalization. Bitcoin is a virtual currency that exists only on the Internet, does not have legal tender status (in contrast to U.S. dollars or Euros), and has its own value units.

21. Money is generally defined as having the functions of being a medium of exchange, a unit of account, and a store of value. Bitcoin acts as a medium of exchange, as evidenced by the existence of a marketplace for goods and services that can be purchased with it. Bitcoin is a unit of

1 account - a unit of measure used to value goods, services, assets, liabilities, income, and expenses.
2 Bitcoin is also a store of value since it can be stored, retrieved, and exchanged for goods and/or services
3 at a later date. However, as previously noted it is not legal tender in any jurisdiction and is not treated as
4 currency for tax purposes.

5 22. Bitcoin derives its value from its usefulness as a form of money that allows for pseudo-
6 anonymous, peer-to-peer transactions with the economic function of money (i.e., medium of exchange, a
7 unit of account, and/or a store of value) as stated above.

8 23. The value of bitcoin against the U.S. dollar, as with many other world currencies, is
9 determined by supply and demand on the open market and affected by factors that are typically difficult
10 or impossible to forecast, such as an increase in investment into bitcoin financial technology startups,
11 security breaches, geopolitical regulatory issues, and bitcoin exchange collapses. In the simplest concept
12 of supply and demand, when demand for bitcoins increases, the price increases and when demand falls,
13 the price falls.

14 24. As adoption of bitcoin as a store of value has grown, there is a growing trend of some
15 U.S. businesses making and accepting payments in virtual currency. Some reasons for this include the
16 ease, low cost, and purported anonymity of bitcoin transactions.

17 25. There are many companies in the U.S. with international employees who are now paying
18 wages in bitcoin; doing so can reduce payroll costs by eliminating international wire fees and can
19 increase the speed with which their international employees receive their pay (minutes vs. weeks).

20 26. Small businesses are in part attracted to bitcoin payments because there are no credit card
21 fees and no charge-backs from customer fraud, but many of these bitcoin payments have exchangers that
22 act as third-party intermediaries who convert the bitcoin payment to a fiat currency (fiat currency is legal
23 tender that is backed by the government that issued it) that is then transmitted to the merchant.

24 27. As of January 2016, it was reported that more than 100,000 merchants globally were
25 accepting bitcoin payments with businesses such as Overstock.com, Home Depot, DirectTV, Dell,
26 Microsoft, Amazon, and Expedia topping the list. By Fall 2016, the number of merchants is forecast to
27 grow to 150,000. With bitcoin, a user can buy webhosting services, cars, homes, and even pizza and

1 manicures. In 2015, there were 125,498 bitcoin transactions per day. Using the total bitcoins traded in
2 2015 and the 2015 bitcoin average price, I calculated the 2015 annualized transaction value in U.S.
3 dollars to be \$10,116,817,608.

4 28. Virtual currencies pose challenges for central banks, departments and ministries of
5 finance, and financial regulators. The main regulatory challenges posed by virtual currencies are the
6 prevention of money laundering, collection of taxes, consumer and investor protection, and the
7 calibration of monetary policy.

8 29. A tax compliance challenge faced by taxpayers transacting in virtual currency is that it
9 may be difficult for individuals receiving income from virtual currencies to determine their tax basis for
10 calculating gains because they may have trouble determining the value of the virtual currency when they
11 first obtained it or in maintaining documentation to determine their tax basis.

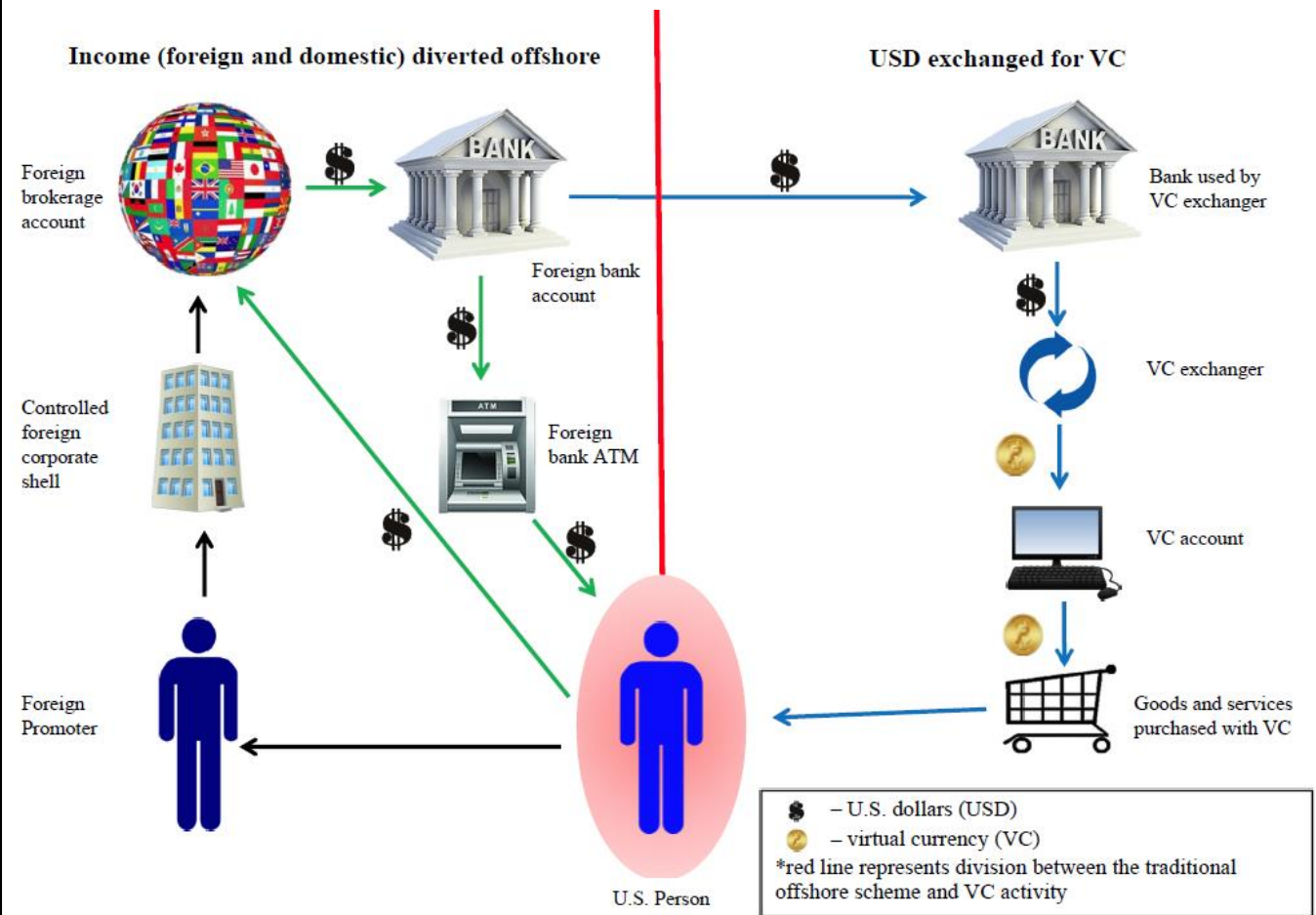
12 30. However, some taxpayers may deliberately use virtual currencies as a way to evade taxes.
13 Because transactions can be difficult to trace and many virtual currencies inherently have a pseudo-
14 anonymous aspect, taxpayers may use them to hide taxable income. This is illustrated by the actions of a
15 taxpayer I had the opportunity to interview, Taxpayer 1, who self-disclosed his virtual currency use
16 during his examination.

17 31. After using a traditional abusive offshore arrangement for approximately 5 years,
18 Taxpayer 1 became fatigued with the effort required to manage his offshore accounts, attorneys, and
19 applicable regulations, and discovered virtual currency while conducting internet research on the topic.
20 Taxpayer 1 began testing the use of virtual currency and eventually abandoned the use of his offshore
21 structure. Taxpayer 1 was able to use virtual currency to repatriate his assets without governmental
22 detection.

23 32. For example, Taxpayer 1 originally worked with a foreign promoter who set up a
24 controlled foreign shell company which diverted his income to a foreign brokerage account, then to a
25 foreign bank account, and lastly back to Taxpayer 1 through the use of an automated teller machine
26 (ATM). Once Taxpayer 1 abandoned the use of his offshore structure in favor of using virtual currency,
27 the steps described above were the same until his income reached his foreign bank account. Once there,

1 instead of repatriating his income from an ATM in the form of cash, Taxpayer 1 diverted his income to a
 2 bank which works with a virtual currency exchanger to convert his income to virtual currency. Once
 3 converted to virtual currency, Taxpayer 1's income was placed into a virtual currency account until
 4 Taxpayer 1 used it to purchase goods and services. Taxpayer 1 failed to report this income to the IRS.

5 33. Below is a diagram I created to demonstrate Taxpayer 1's activities with the area to the left of the red diagonal line being the traditional offshore arrangement and the area to the right of the red
 6 line the virtual currency structure. This demonstrates how Taxpayer 1 was able to effectuate large non-
 7 cash transactions on a pseudo-anonymous basis.
 8



24 34. Two additional IRS exams in which I have assisted involved Taxpayer 2 and Taxpayer 3,
 25 both corporate entities with annual revenues of several million dollars, that bought and sold bitcoins
 26 which resulted in the underreporting of income. Both taxpayers admitted disguising the amount they
 27

1 spent purchasing the bitcoins as deductions for technology expenses on their tax returns. The bitcoin
2 transactions were discovered after repeated requests for the original documentation necessary to
3 substantiate the technology expense items claimed on the tax returns. Both taxpayers ultimately
4 conceded that the corporate expenses were bitcoin transactions and thus not deductible. In addition,
5 Taxpayer 2 and Taxpayer 3 each had wallet accounts at bitcoin exchange Coinbase, Inc., the virtual
6 currency exchanger the IRS seeks to summon in this case.

7 35. My research has also identified individuals prosecuted and convicted of federal crimes
8 for anti-money laundering and/or operating an unlicensed money services business involving virtual
9 currency transactions. IRS records indicate that these defendants never reported to the IRS their virtual
10 currency transactions.

11 36. In addition, some taxpayers have openly acknowledged they consider using bitcoin in
12 order to avoid tax reporting requirements. *See Bitcoin Celebrated As Way To Avoid Taxes*, Huffington
13 Post (April 16, 2013) (www.huffingtonpost.com/2013/04/16/bitcoin-taxes_n_3093182.html).

14 37. Further, in the experience of the IRS, tax noncompliance increases when there is no third-
15 party information reporting. That is, taxpayers are less likely to report and pay taxes on income that is
16 not independently reported to the IRS by a third party. IRS “tax gap” studies consistently show that
17 compliance is far higher when reported income amounts are subject to information reporting by third
18 parties. The most recent such study, conducted in April 2016 based on 2008-2010 data, concluded that
19 the overall rate of underreporting of income that was not subject to third-party information reporting was
20 63 percent, compared to 7 percent for amounts subject to substantial information reporting but no
21 withholding, and 1 percent for amounts subject to substantial information reporting and withholding. *See*
22 [Tax Gap Estimates for Tax Years 2008-2010](https://www.irs.gov/PUP/newsroom/tax%20gap%20estimates%20for%202008%20through%202010.pdf), (April 2016)

23 ([https://www.irs.gov/PUP/newsroom/tax%20gap%20estimates%20for%202008%20through%202010.p](https://www.irs.gov/PUP/newsroom/tax%20gap%20estimates%20for%202008%20through%202010.pdf)
24 [df](https://www.irs.gov/PUP/newsroom/tax%20gap%20estimates%20for%202008%20through%202010.pdf)). Because there is no third-party reporting of virtual currency transactions for tax purposes, the
25 risk/reward ratio for a taxpayer in the virtual currency environment is extremely low, and the likelihood
26 of underreporting is significant.

1 38. The characteristics of virtual currencies could also enable them to replace traditional
2 abusive tax arrangements as the preferred method for tax evaders, because such currencies are not
3 subject to taxation at the source (*i.e.* withholding), are largely anonymous, and, as peer-to-peer systems,
4 do not involve traditional financial intermediaries.

5 **D. Coinbase, Inc.**

6 39. Coinbase, Inc., is a Delaware corporation that operates a bitcoin wallet and exchange
7 business headquartered in San Francisco, California. According to its website (www.coinbase.com), the
8 company currently offers buy/sell trading functionality in 32 countries, maintains over 4.9 million
9 wallets with wallet services available in 190 countries, 3.2 million customers served, and \$2.5 billion
10 exchanged in bitcoin. Additional research on Coinbase shows that in the 30-day period ending
11 December 14, 2015, Coinbase was the fourth largest exchanger globally of bitcoin into U.S. dollars and
12 the largest exchanger in the U.S. of bitcoin into U.S. dollars. Coinbase started business in June 2012 as a
13 digital wallet service. By October 2012, the company launched the ability to buy and sell bitcoin
14 through bank transfers.

15 40. In 2014, Coinbase grew to one million users, acquired the blockchain explorer service
16 Blockr and the web bookmarking company Kippt, secured insurance covering the value of bitcoin stored
17 on their servers, and launched a “vault system” for secure bitcoin storage. During 2014, Coinbase also
18 formed partnerships with Overstock, Dell, Expedia, Dish Network, Time Inc., and Wikipedia and
19 assisted Stripe, Braintree, and PayPal in accepting bitcoin payments.

20 41. In January 2015, Coinbase received an additional \$75 million from a number of investors
21 including the New York Stock Exchange and a subsidiary of USAA. According to Coinbase, this was
22 the first time any traditional financial institutions had taken direct stakes in a bitcoin enterprise. Later in
23 January, Coinbase launched what it claimed to be the first regulated U.S.-based bitcoin exchange.

24 42. As of December 2015, Coinbase has four main products: (1) an exchange for trading
25 bitcoin and fiat currency (funded through bank or wire transfers); (2) a wallet for bitcoin storage and
26 transactions; (3) an application programming interface (API) for developers and merchants to build
27 applications and accept bitcoin payments; and (4) “Shift Card,” the first U.S.-issued bitcoin debit card.

1 The Shift Card is a VISA branded debit card that enables Coinbase users in the U.S. (currently only
2 twenty-four states and Washington, D.C.) to spend bitcoin anywhere VISA is globally accepted.

3 43. On April 23, 2013, Coinbase registered with FinCEN as a Money Transmitter (MSB
4 Registration Number: 31000025767705) (Coinbase re-registered with FinCEN on December 8, 2014
5 (MSB Registration Number 31000057750785). As a Money Transmitter, Coinbase is required by the
6 Bank Secrecy Act and FinCEN regulations to develop, implement, and maintain an effective anti-money
7 laundering program that, among other things, includes a process for verifying customer identification.
8 Coinbase's user agreement states that all U.S. users who wish to use Coinbase's USD Wallet or the
9 Coinbase Exchange, at minimum, must:

- 10 • Establish a Coinbase Account by providing a name, authenticating an e-mail
11 address, and accepting the Coinbase User Terms;
- 12 • Add and verify a phone number;
- 13 • Add and verify a bank account;
- 14 • Add personal details (full name, date of birth, residential address); and
- 15 • Complete identity verification by answering a few questions.
- 16 • In addition, users based in New York State conducting a bitcoin transaction in
17 excess of \$3,000 must submit a copy of an acceptable form of identification (i.e.
18 passport, state driver's license, or state identification card).

19 44. Based on the information set forth above, I have reason to believe that Coinbase is in
20 possession of records identifying customers with wallet accounts, their transactional history of
21 exchanging dollars for bitcoin, and their use of Shift debit cards.

22 **II. THE "JOHN DOE" SUMMONS REQUIREMENTS HAVE BEEN MET**

23 45. In accordance with the recommendation of GAO that the IRS plan specific compliance
24 activities to address the tax compliance risks posed by virtual currencies, the IRS has commenced an
25 investigation to determine the correct federal income tax liabilities, for the years ended December 31,
26
27

1 2013, 2014, and 2015, of United States persons who conducted transactions in a convertible virtual
2 currency as that term is defined in IRS Notice 2014-21.

3 46. To facilitate this investigation, the IRS is seeking the Court’s permission to serve,
4 pursuant to sections 7602 and 7609(f) of the Internal Revenue Code (26 U.S.C.), a “John Doe” summons
5 on Coinbase, Inc. A copy of this summons is attached as Exhibit B.

6 47. As described below: (1) the “John Doe” summons to Coinbase relates to the investigation
7 of an ascertainable group or class of persons; (2) there is a reasonable basis for believing that this group
8 or class of persons has failed or may have failed to comply with provisions of the internal revenue laws;
9 and (3) the information and documents sought to be obtained from the examination of the records or
10 testimony (and the identity of the persons with respect to whose tax liabilities the summons has been
11 issued) are not readily available from sources other than Coinbase.

12 **A. The summons describes an ascertainable class of persons**

13 48. The proposed “John Doe” summons seeks information regarding United States persons
14 who, at any time during the period January 1, 2013, through December 31, 2015, conducted transactions
15 in a convertible virtual currency as defined in IRS Notice 2014-21.

16 49. This class of persons is ascertainable in that the individuals in the class are particularized
17 from the general public by their characteristics of being United States persons who transacted in a
18 convertible virtual currency.

19 **B. Members of the “John Doe” class may have failed to comply with internal revenue
20 laws**

21 **1. Internal revenue laws require United States taxpayers to report and pay tax with
22 respect to transactions in virtual currency**

23 50. For federal tax purposes, virtual currency is treated as property. General tax principles
24 applicable to property transactions apply to transactions using virtual currency. *See* IRS Notice 2014-21.

25 51. Under general tax principles applicable to property transactions, the following virtual
26 currency transactions are reportable in the manner indicated:
27

- 1 • Wage, salary, or other income paid to an employee with virtual currency, is
2 reportable by the employee as ordinary income and subject to employment taxes
3 paid by the employer.
- 4 • Virtual currency received by a self-employed individual in exchange for goods or
5 services is reportable as ordinary income and is subject to self-employment tax.
6 This would include a person who “mines” virtual currency as a trade or business.
- 7 • Virtual currency received in exchange for goods or services by a business is
8 reportable as ordinary income.
- 9 • Gain on the exchange of virtual currency for other property is generally reportable
10 as a capital gain if the virtual currency was held as a capital asset and as ordinary
11 income if it is property held for sale to customers in a trade or business.
- 12 • Gain on the sale of property held as a capital asset in exchange for virtual
13 currency is reportable as a capital gain.
- 14 • Payments made in virtual currency are subject to information reporting
15 requirements to the same extent as payments made in real currency or instruments
16 denominated in real currency.

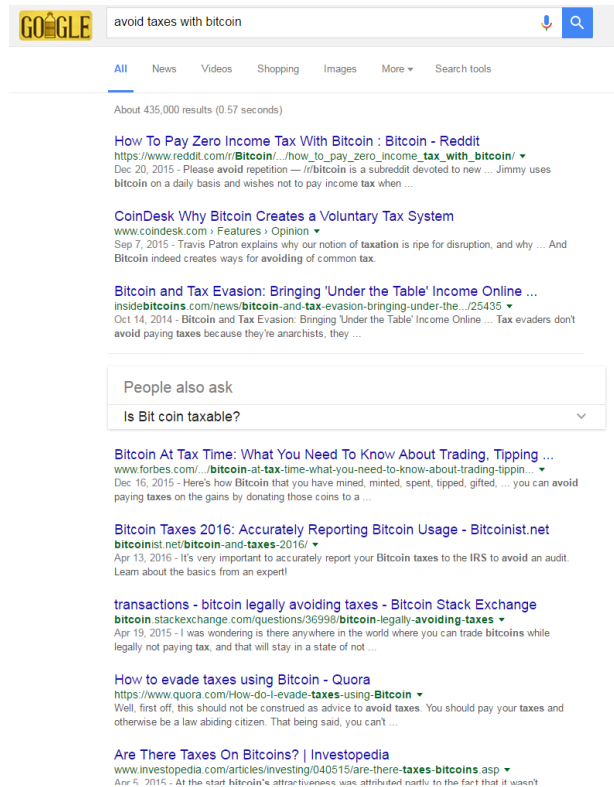
17 52. Taxpayers who have engaged in such virtual currency transactions and have not properly
18 reported them have failed to comply with internal revenue laws.

19 **2. The IRS has reason to believe that members of the “John Doe” class may**
20 **have failed to comply with one or more requirements of the internal revenue**
21 **laws**

22 53. As noted above, the experience of the IRS is that tax noncompliance increases in the
23 absence of third-party information reporting. This experience is a reasonable basis to believe that
24 members of the “John Doe” class may have failed to comply with the internal revenue laws of the
25 United States because there is no third-party reporting of transactions in virtual currency for tax
26 purposes.
27

1 54. In addition, based on my experience with several virtual currency cases, in each case the
 2 taxpayers who held virtual currency accounts have concealed the existence of their virtual currency
 3 account, virtual currency transactions, and their virtual currency income from the IRS.

4 55. A basic Google search for *avoid taxes with bitcoin* returns numerous results containing
 5 discussions of ways to avoid and evade paying taxes by using bitcoin or other virtual currencies:



56. In addition, as discussed in paragraphs 30-33, during my investigation, I interviewed
 Taxpayer 1 and learned that he had switched from using an offshore structure by which to repatriate his
 income and avoid detection to using a virtual currency structure to accomplish the same illegal goal.
 Further, as discussed in paragraph 34, I assisted in two cases involving Taxpayer 2 and Taxpayer 3, both
 corporate entities that disguised the amount they spent purchasing bitcoins as technology expenses
 which they improperly deducted on their tax returns. Both taxpayers ultimately conceded that these
 expenses were bitcoin transactions involving property and thus not deductible.

57. The information and experience of the IRS suggests that many unknown U.S. taxpayers
 engage in virtual currency transactions or structures. Because the IRS does not know the identity of the

1 individuals within the “John Doe” class, the IRS cannot yet examine the income tax returns filed by
2 those U.S. taxpayers to determine whether they have properly reported any income attributable to virtual
3 currencies.

4 **C. The requested materials are not readily available from other sources**

5 58. As discussed above, although the blockchain is a public ledger of all virtual currency
6 transactions, the blockchain does not record information that identifies the persons involved in the
7 transaction. The only third parties possessing information relating to virtual currency transactions that
8 identify the persons involved are their exchangers and any intermediaries to the parties to the transaction
9 and their exchangers.


10 59. In light of the above, the records sought by the “John Doe” summons are not otherwise
11 readily available to the IRS.

12 **III. CONCLUSION**

13 60. Based upon the foregoing, the information sought in the “John Doe” summons to be
14 served on Coinbase, Inc., will allow the IRS to identify United States persons who may have failed to
15 comply with their obligation to report and pay U.S. tax on income realized in virtual currency
16 transactions during the years ended December 31, 2013, through December 31, 2015.

17 I declare under penalty of perjury, pursuant to 28 U.S.C. § 1746, that the foregoing is true and
18 correct.

19 Executed this 15th day of November, 2016.

20
21 
22 DAVID UTZKE
23 Senior Revenue Agent
24 Internal Revenue Service
25
26
27

Notice 2014-21

SECTION 1. PURPOSE

This notice describes how existing general tax principles apply to transactions using virtual currency. The notice provides this guidance in the form of answers to frequently asked questions.

SECTION 2. BACKGROUND

The Internal Revenue Service (IRS) is aware that “virtual currency” may be used to pay for goods or services, or held for investment. Virtual currency is a digital representation of value that functions as a medium of exchange, a unit of account, and/or a store of value. In some environments, it operates like “real” currency -- i.e., the coin and paper money of the United States or of any other country that is designated as legal tender, circulates, and is customarily used and accepted as a medium of exchange in the country of issuance -- but it does not have legal tender status in any jurisdiction.

Virtual currency that has an equivalent value in real currency, or that acts as a substitute for real currency, is referred to as “convertible” virtual currency. Bitcoin is one example of a convertible virtual currency. Bitcoin can be digitally traded between users and can be purchased for, or exchanged into, U.S. dollars, Euros, and other real or virtual currencies. For a more comprehensive description of convertible virtual currencies to date, see Financial Crimes Enforcement Network (FinCEN) *Guidance on the Application of FinCEN’s Regulations to Persons Administering, Exchanging, or Using Virtual Currencies* (FIN-2013-G001, March 18, 2013).

SECTION 3. SCOPE

In general, the sale or exchange of convertible virtual currency, or the use of convertible virtual currency to pay for goods or services in a real-world economy transaction, has tax consequences that may result in a tax liability. This notice addresses only the U.S. federal tax consequences of transactions in, or transactions that use, convertible virtual currency, and the term “virtual currency” as used in Section 4 refers only to convertible virtual currency. No inference should be drawn with respect to virtual currencies not described in this notice.

The Treasury Department and the IRS recognize that there may be other questions regarding the tax consequences of virtual currency not addressed in this notice that warrant consideration. Therefore, the Treasury Department and the IRS request comments from the public regarding other types or aspects of virtual currency transactions that should be addressed in future guidance.

Comments should be addressed to:

**Government
Exhibit**

A

Internal Revenue Service
Attn: CC:PA:LPD:PR (Notice 2014-21)
Room 5203
P.O. Box 7604
Ben Franklin Station
Washington, D.C. 20044

or hand delivered Monday through Friday between the hours of 8 A.M. and 4 P.M. to:

Courier's Desk
Internal Revenue Service
Attn: CC:PA:LPD:PR (Notice 2014-21)
1111 Constitution Avenue, N.W.
Washington, D.C. 20224

Alternatively, taxpayers may submit comments electronically via e-mail to the following address: Notice.Comments@irsconsult.treas.gov. Taxpayers should include "Notice 2014-21" in the subject line. All comments submitted by the public will be available for public inspection and copying in their entirety.

For purposes of the FAQs in this notice, the taxpayer's functional currency is assumed to be the U.S. dollar, the taxpayer is assumed to use the cash receipts and disbursements method of accounting and the taxpayer is assumed not to be under common control with any other party to a transaction.

SECTION 4. FREQUENTLY ASKED QUESTIONS

Q-1: How is virtual currency treated for federal tax purposes?

A-1: For federal tax purposes, virtual currency is treated as property. General tax principles applicable to property transactions apply to transactions using virtual currency.

Q-2: Is virtual currency treated as currency for purposes of determining whether a transaction results in foreign currency gain or loss under U.S. federal tax laws?

A-2: No. Under currently applicable law, virtual currency is not treated as currency that could generate foreign currency gain or loss for U.S. federal tax purposes.

Q-3: Must a taxpayer who receives virtual currency as payment for goods or services include in computing gross income the fair market value of the virtual currency?

A-3: Yes. A taxpayer who receives virtual currency as payment for goods or services must, in computing gross income, include the fair market value of the virtual currency,

measured in U.S. dollars, as of the date that the virtual currency was received. See Publication 525, *Taxable and Nontaxable Income*, for more information on miscellaneous income from exchanges involving property or services.

Q-4: What is the basis of virtual currency received as payment for goods or services in Q&A-3?

A-4: The basis of virtual currency that a taxpayer receives as payment for goods or services in Q&A-3 is the fair market value of the virtual currency in U.S. dollars as of the date of receipt. See Publication 551, *Basis of Assets*, for more information on the computation of basis when property is received for goods or services.

Q-5: How is the fair market value of virtual currency determined?

A-5: For U.S. tax purposes, transactions using virtual currency must be reported in U.S. dollars. Therefore, taxpayers will be required to determine the fair market value of virtual currency in U.S. dollars as of the date of payment or receipt. If a virtual currency is listed on an exchange and the exchange rate is established by market supply and demand, the fair market value of the virtual currency is determined by converting the virtual currency into U.S. dollars (or into another real currency which in turn can be converted into U.S. dollars) at the exchange rate, in a reasonable manner that is consistently applied.

Q-6: Does a taxpayer have gain or loss upon an exchange of virtual currency for other property?

A-6: Yes. If the fair market value of property received in exchange for virtual currency exceeds the taxpayer's adjusted basis of the virtual currency, the taxpayer has taxable gain. The taxpayer has a loss if the fair market value of the property received is less than the adjusted basis of the virtual currency. See Publication 544, *Sales and Other Dispositions of Assets*, for information about the tax treatment of sales and exchanges, such as whether a loss is deductible.

Q-7: What type of gain or loss does a taxpayer realize on the sale or exchange of virtual currency?

A-7: The character of the gain or loss generally depends on whether the virtual currency is a capital asset in the hands of the taxpayer. A taxpayer generally realizes capital gain or loss on the sale or exchange of virtual currency that is a capital asset in the hands of the taxpayer. For example, stocks, bonds, and other investment property are generally capital assets. A taxpayer generally realizes ordinary gain or loss on the sale or exchange of virtual currency that is not a capital asset in the hands of the taxpayer. Inventory and other property held mainly for sale to customers in a trade or

business are examples of property that is not a capital asset. See Publication 544 for more information about capital assets and the character of gain or loss.

Q-8: Does a taxpayer who “mines” virtual currency (for example, uses computer resources to validate Bitcoin transactions and maintain the public Bitcoin transaction ledger) realize gross income upon receipt of the virtual currency resulting from those activities?

A-8: Yes, when a taxpayer successfully “mines” virtual currency, the fair market value of the virtual currency as of the date of receipt is includible in gross income. See Publication 525, *Taxable and Nontaxable Income*, for more information on taxable income.

Q-9: Is an individual who “mines” virtual currency as a trade or business subject to self-employment tax on the income derived from those activities?

A-9: If a taxpayer’s “mining” of virtual currency constitutes a trade or business, and the “mining” activity is not undertaken by the taxpayer as an employee, the net earnings from self-employment (generally, gross income derived from carrying on a trade or business less allowable deductions) resulting from those activities constitute self-employment income and are subject to the self-employment tax. See Chapter 10 of Publication 334, *Tax Guide for Small Business*, for more information on self-employment tax and Publication 535, *Business Expenses*, for more information on determining whether expenses are from a business activity carried on to make a profit.

Q-10: Does virtual currency received by an independent contractor for performing services constitute self-employment income?

A-10: Yes. Generally, self-employment income includes all gross income derived by an individual from any trade or business carried on by the individual as other than an employee. Consequently, the fair market value of virtual currency received for services performed as an independent contractor, measured in U.S. dollars as of the date of receipt, constitutes self-employment income and is subject to the self-employment tax. See FS-2007-18, April 2007, *Business or Hobby? Answer Has Implications for Deductions*, for information on determining whether an activity is a business or a hobby.

Q-11: Does virtual currency paid by an employer as remuneration for services constitute wages for employment tax purposes?

A-11: Yes. Generally, the medium in which remuneration for services is paid is immaterial to the determination of whether the remuneration constitutes wages for employment tax purposes. Consequently, the fair market value of virtual currency paid as wages is subject to federal income tax withholding, Federal Insurance Contributions

Act (FICA) tax, and Federal Unemployment Tax Act (FUTA) tax and must be reported on Form W-2, *Wage and Tax Statement*. See Publication 15 (Circular E), *Employer's Tax Guide*, for information on the withholding, depositing, reporting, and paying of employment taxes.

Q-12: Is a payment made using virtual currency subject to information reporting?

A-12: A payment made using virtual currency is subject to information reporting to the same extent as any other payment made in property. For example, a person who in the course of a trade or business makes a payment of fixed and determinable income using virtual currency with a value of \$600 or more to a U.S. non-exempt recipient in a taxable year is required to report the payment to the IRS and to the payee. Examples of payments of fixed and determinable income include rent, salaries, wages, premiums, annuities, and compensation.

Q-13: Is a person who in the course of a trade or business makes a payment using virtual currency worth \$600 or more to an independent contractor for performing services required to file an information return with the IRS?

A-13: Generally, a person who in the course of a trade or business makes a payment of \$600 or more in a taxable year to an independent contractor for the performance of services is required to report that payment to the IRS and to the payee on Form 1099-MISC, *Miscellaneous Income*. Payments of virtual currency required to be reported on Form 1099-MISC should be reported using the fair market value of the virtual currency in U.S. dollars as of the date of payment. The payment recipient may have income even if the recipient does not receive a Form 1099-MISC. See the Instructions to Form 1099-MISC and the General Instructions for Certain Information Returns for more information. For payments to non-U.S. persons, see Publication 515, *Withholding of Tax on Nonresident Aliens and Foreign Entities*.

Q-14: Are payments made using virtual currency subject to backup withholding?

A-14: Payments made using virtual currency are subject to backup withholding to the same extent as other payments made in property. Therefore, payors making reportable payments using virtual currency must solicit a taxpayer identification number (TIN) from the payee. The payor must backup withhold from the payment if a TIN is not obtained prior to payment or if the payor receives notification from the IRS that backup withholding is required. See Publication 1281, *Backup Withholding for Missing and Incorrect Name/TINs*, for more information.

Q-15: Are there IRS information reporting requirements for a person who settles payments made in virtual currency on behalf of merchants that accept virtual currency from their customers?

A-15: Yes, if certain requirements are met. In general, a third party that contracts with a substantial number of unrelated merchants to settle payments between the merchants and their customers is a third party settlement organization (TPSO). A TPSO is required to report payments made to a merchant on a Form 1099-K, *Payment Card and Third Party Network Transactions*, if, for the calendar year, both (1) the number of transactions settled for the merchant exceeds 200, and (2) the gross amount of payments made to the merchant exceeds \$20,000. When completing Boxes 1, 3, and 5a-1 on the Form 1099-K, transactions where the TPSO settles payments made with virtual currency are aggregated with transactions where the TPSO settles payments made with real currency to determine the total amounts to be reported in those boxes. When determining whether the transactions are reportable, the value of the virtual currency is the fair market value of the virtual currency in U.S. dollars on the date of payment.

See The Third Party Information Reporting Center, <http://www.irs.gov/Tax-Professionals/Third-Party-Reporting-Information-Center>, for more information on reporting transactions on Form 1099-K.

Q-16: Will taxpayers be subject to penalties for having treated a virtual currency transaction in a manner that is inconsistent with this notice prior to March 25, 2014?

A-16: Taxpayers may be subject to penalties for failure to comply with tax laws. For example, underpayments attributable to virtual currency transactions may be subject to penalties, such as accuracy-related penalties under section 6662. In addition, failure to timely or correctly report virtual currency transactions when required to do so may be subject to information reporting penalties under section 6721 and 6722. However, penalty relief may be available to taxpayers and persons required to file an information return who are able to establish that the underpayment or failure to properly file information returns is due to reasonable cause.

SECTION 5. DRAFTING INFORMATION

The principal author of this notice is Keith A. Aqui of the Office of Associate Chief Counsel (Income Tax & Accounting). For further information about income tax issues addressed in this notice, please contact Mr. Aqui at (202) 317-4718; for further information about employment tax issues addressed in this notice, please contact Mr. Neil D. Shepherd at (202) 317- 4774; for further information about information reporting issues addressed in this notice, please contact Ms. Adrienne E. Griffin at (202) 317-6845; and for further information regarding foreign currency issues addressed in this notice, please contact Mr. Raymond J. Stahl at (202) 317- 6938. These are not toll-free calls.



Summons

In the matter of Tax Liability of John Does*
 Internal Revenue Service (Division): Large Business & International Division
 Industry/Area (name or number): Withholding & International Individual Compliance
 Periods: Years ending 12/31/2013 through 12/31/2015

The Commissioner of Internal Revenue

To: Coinbase, Inc.
 At: _____

You are hereby summoned and required to appear before David J. Utzke, Revenue Agent or Designee
 an officer of the Internal Revenue Service, to give testimony and to bring with you and to produce for examination the following books, records, papers,
 and other data relating to the tax liability or the collection of the tax liability or for the purpose of inquiring into any offense connected with the
 administration or enforcement of the internal revenue laws concerning the person identified above for the periods shown.

See attachment

* "John Does" are United States persons who, at any time during the period January 1, 2013, through December 31, 2015, conducted transactions in a convertible virtual currency as defined in IRS Notice 2014-21.

Do not write in this space



Business address and telephone number of IRS officer before whom you are to appear:

1818 East Southern Avenue, Mesa, AZ 85204 / 626-927-1237

Place and time for appearance at Internal Revenue Service, 450 Golden Gate Avenue, San Francisco CA 94102



Department of the Treasury
Internal Revenue Service

www.irs.gov

Form 2039 (Rev. 10-2010)
Catalog Number 21405J

on the _____ day of _____, _____ at _____ o'clock _____ m.

Issued under authority of the Internal Revenue Code this _____^(year) day of _____, _____^(year)

 Signature of issuing officer

 Program Manager
 Title

 Signature of approving officer (if applicable)

 Title

Original — to be kept by IRS



Service of Summons, Notice and Recordkeeper Certificates

(Pursuant to section 7603, Internal Revenue Code)

I certify that I served the summons shown on the front of this form on:

Date <p style="text-align: center;">TBD</p>	Time <p style="text-align: center;">TBD</p>
--	--

**How
Summons
Was
Served**

1. I certify that I handed a copy of the summons, which contained the attestation required by § 7603, to the person to whom it was directed.
2. I certify that I left a copy of the summons, which contained the attestation required by § 7603, at the last and usual place of abode of the person to whom it was directed. I left the copy with the following person (if any): _____
3. I certify that I sent a copy of the summons, which contained the attestation required by § 7603, by certified or registered mail to the last known address of the person to whom it was directed, that person being a third-party recordkeeper within the meaning of § 7603(b). I sent the summons to the following address: Coinbase, Inc.

Signature	Title <p style="text-align: center;">Revenue Agent</p>
-----------	---

4. This certificate is made to show compliance with IRC Section 7609. This certificate does not apply to summonses served on any officer or employee of the person to whose liability the summons relates nor to summonses in aid of collection, to determine the identity of a person having a numbered account or similar arrangement, or to determine

whether or not records of the business transactions or affairs of an identified person have been made or kept.

I certify that, within 3 days of serving the summons, I gave notice (Part D of Form 2039) to the person named below on the date and in the manner indicated.

Date of giving Notice: _____ Time: _____

Name of Noticee: _____

Address of Noticee (if mailed): _____

**How
Notice
Was
Given**

- | | |
|---|---|
| <input type="checkbox"/> I gave notice by certified or registered mail to the last known address of the noticee.

<input type="checkbox"/> I left the notice at the last and usual place of abode of the noticee. I left the copy with the following person (if any). | <input type="checkbox"/> I gave notice by handing it to the noticee.

<input type="checkbox"/> In the absence of a last known address of the noticee, I left the notice with the person summoned.

<input checked="" type="checkbox"/> No notice is required. |
|---|---|

Signature	Title <p style="text-align: center;">Revenue Agent</p>
-----------	---

I certify that the period prescribed for beginning a proceeding to quash this summons has expired and that no such proceeding was instituted or that the noticee consents to the examination.

Signature	Title <p style="text-align: center;">Revenue Agent</p>
-----------	---



Summons

In the matter of Tax Liability of John Does*
 Internal Revenue Service (Division): Large Business & International Division
 Industry/Area (name or number): Withholding & International Individual Compliance
 Periods: Years ending 12/31/2013 through 12/31/2015

The Commissioner of Internal Revenue

To: Coinbase, Inc.
 At: _____

You are hereby summoned and required to appear before David J. Utzke, Revenue Agent or Designee
 an officer of the Internal Revenue Service, to give testimony and to bring with you and to produce for examination the following books, records, papers, and other data relating to the tax liability or the collection of the tax liability or for the purpose of inquiring into any offense connected with the administration or enforcement of the internal revenue laws concerning the person identified above for the periods shown.

See attachment

* "John Does" are United States persons who, at any time during the period January 1, 2013, through December 31, 2015, conducted transactions in a convertible virtual currency as defined in IRS Notice 2014-21.

Attestation

I hereby certify that I have examined and compared this copy of the summons with the original and that it is a true and correct copy of the original.

 Signature of IRS officer serving the summons

 Revenue Agent
 Title

Business address and telephone number of IRS officer before whom you are to appear:

1818 East Southern Avenue, Mesa, AZ 85204 / 626-927-1237

Place and time for appearance at Internal Revenue Service, 450 Golden Gate Avenue, San Francisco CA 94102



Department of the Treasury
 Internal Revenue Service

www.irs.gov

Form 2039 (Rev. 10-2010)
 Catalog Number 21405J

on the _____ day of _____, _____ at _____ o'clock _____ m.
 Issued under authority of the Internal Revenue Code this _____^(year) day of _____, _____^(year)

 Signature of issuing officer

 Program Manager
 Title

 Signature of approving officer (if applicable)

 Title

Part A - to be given to person summoned



Provisions of the Internal Revenue Code

Sec. 7602. Examination of books and witnesses

(a) Authority to Summon, etc. - For the purpose of ascertaining the correctness of any return, making a return where none has been made, determining the liability of any person for any internal revenue tax or the liability at law or in equity of any transferee or fiduciary of any person in respect of any internal revenue tax, or collecting any such liability, the Secretary is authorized -

- (1) To examine any books, papers, records, or other data which may be relevant or material to such inquiry.
- (2) To summon the person liable for tax or required to perform the act, or any officer or employee of such person, or any person having possession, custody, or care of books of account containing entries relating to the business of the person liable for tax or required to perform the act, or any other person the Secretary may deem proper, to appear before the Secretary at a time and place named in the summons and to produce such books, papers, records, or other data, and to give such testimony, under oath, as may be relevant or material to such inquiry; and
- (3) To take such testimony of the person concerned, under oath, as may be relevant or material to such inquiry.

(b) Purpose may include inquiry into offense. - The purposes for which the Secretary may take any action described in paragraph (1), (2), or (3) of subsection (a) include the purpose of inquiring into any offense connected with the administration or enforcement of the internal revenue laws.

(c) Notice of contact of third parties. -

- (1) General Notice. - An officer or employee of the Internal Revenue Service may not contact any person other than the taxpayer with respect to the determination or collection of the tax liability of such taxpayer without providing reasonable notice in advance to the taxpayer that contacts with persons other than the taxpayer may be made.
- (2) Notice of specific contacts. - The Secretary shall periodically provide to a taxpayer a record of persons contacted during such period by the Secretary with respect to the determination or collection of the tax liability of such taxpayer. Such record shall also be provided upon request of the taxpayer.
- (3) Exceptions. - This subsection shall not apply-
 - (A) to any contact which the taxpayer has authorized,
 - (B) if the Secretary determines for good cause shown that such notice would jeopardize collection of any tax or such notice may involve reprisal against any person, or
 - (C) with respect to any pending criminal investigation.

(d) No administrative summons when there is Justice Department referral.-

- (1) Limitation of authority. - No summons may be issued under this title, and the Secretary may not begin any action under section 7604 to enforce any summons, with respect to any person if a Justice Department referral is in effect with respect to such person.
- (2) Justice Department referral in effect. - For purposes of this subsection-
 - (A) In general. - A Justice Department referral is in effect with respect to any person if-
 - (i) the Secretary has recommended to the Attorney General a grand jury investigation of, or the criminal prosecution of, such person for any offense connected with the administration or enforcement of the internal revenue laws or
 - (ii) any request is made under section 6103(h)(3)(B) for the disclosure of any return or return information (within the meaning of section 6103(b)) relating to such person.
 - (B) Termination. - A Justice Department referral shall cease to be in effect with respect to a person when-
 - (i) the Attorney General notifies the Secretary, in writing, that -
 - (I) he will not prosecute such person for any offense connected with the administration or enforcement of the internal revenue laws,
 - (II) he will not authorize a grand jury investigation of such person with respect to such an offense, or
 - (III) he will discontinue such a grand jury investigation.
 - (ii) a final disposition has been made of any criminal proceeding pertaining to the enforcement of the internal revenue laws which was instituted by the Attorney General against such person, or
 - (iii) the Attorney General notifies the Secretary, in writing, that he will not prosecute such person for any offense connected with the administration or enforcement of the internal revenue laws relating to the request described in sub paragraph (A)(ii).
- (3) Taxable years, etc., treated separately. - For purposes of this subsection, each taxable period (or, if there is no taxable period, each taxable event) and each tax imposed by a separate chapter of this title shall be treated separately.

(e) Limitation on examination on unreported income. - The Secretary shall not use financial status or economic reality examination techniques to determine the existence of unreported income of any taxpayer unless the Secretary has a reasonable indication that there is a likelihood of such unreported income.

Authority to examine books and witness is also provided under sec. 6420 (e)(2) - Gasoline used on farms: sec. 6421(g)(2) - Gasoline used for certain nonhighway purposes by local transit systems, or sold for certain exempt purposes; and sec. 6427(j)(2) - Fuels not used for taxable purposes.

Sec. 7603. Service of summons

(a) In general - A summons issued under section 6420(e)(2), 6421(g)(2), 6427(j)(2), or 7602 shall be served by the Secretary, by an attested copy delivered in hand to the person to whom it is directed, or left at his last and usual place of abode; and the certificate of service signed by the person serving the summons shall be evidence of the facts it states on the hearing of an application for the enforcement of the summons. When the summons requires the production of books, papers, records, or other data, it shall be sufficient if such books, papers, records, or other data are described with reasonable certainty

(b) Service by mail to third-party recordkeepers. -

- (1) In general. - A summons referred to in subsection (a) for the production of books, papers, records, or other data by a third-party recordkeeper may also be served by certified or registered mail to the last known address of such recordkeeper.
- (2) Third party record keeper. - For purposes of paragraph (1), the term *third-party recordkeeper* means -
 - (A) any mutual savings bank, cooperative bank, domestic building and loan association, or other savings institution chartered and supervised as a savings and loan or similar association under Federal or State law, any bank (as defined in section 581), or any credit union (within the meaning of section 501 (c)(14)(A));
 - (B) any consumer reporting agency (as defined under section 603(f) of the Fair Credit Reporting Act (15 U.S.C. 1681 a(f)));
 - (C) Any person extending credit through the use of credit cards or similar devices;
 - (D) any broker (as defined in section 3(a)(4) of the Securities Exchange Act of 1934 (15 U.S.C. 78c(a)(4));
 - (E) any attorney;
 - (F) any accountant;
 - (G) any barter exchange (as defined in section 6045(c)(3));
 - (H) any regulated investment company (as defined in section 851) and any agent of such regulated investment company when acting as an agent thereof;
 - (I) any enrolled agent; and
 - (J) any owner or developer of a computer software source code (as defined in section 7612(d)(2)). Subparagraph (J) shall apply only with respect to a summons requiring the production of the source code referred to in subparagraph (J) or the program and data described in section 7612(b)(1)(A)(ii) to which source code relates.

Sec. 7604. Enforcement of summons

(a) Jurisdiction of District Court. - If any person is summoned under the internal revenue laws to appear, to testify, or to produce books, papers, records, or other data, the United States district court for the district in which such person resides or is found shall have jurisdiction by appropriate process to compel such attendance, testimony, or production of books, papers, records, or other data.

(b) Enforcement. - Whenever any person summoned under section 6420(e)(2), 6421 (g)(2), 6427(j)(2), or 7602 neglects or refuses to obey such summons, or to produce books, papers, records, or other data, or to give testimony, as required, the Secretary may apply to the judge of the district court or to a United States Commissioner for the district within which the person so summoned resides or is found for an attachment against him as for a contempt. It shall be the duty of the judge or Commissioner to hear the application, and, if satisfactory proof is made, to issue an attachment, directed to some proper officer, for the arrest of such person, and upon his being brought before him to proceed to a hearing of the case; and upon such hearing the judge or the United States Commissioner shall have power to make such order as he shall deem proper, not inconsistent with the law for the punishment of contempts, to enforce obedience to the requirements of the summons and to punish such person for his default or disobedience.

* * * * *

Sec. 7605. Time and place of examination

(a) Time and place. - The time and place of examination pursuant to the provisions of section 6420(e)(2), 6421 (g)(2), 6427(j)(2), or 7602 shall be such time and place as may be fixed by the Secretary and as are reasonable under the circumstances. In the case of a summons under authority of paragraph (2) of section 7602, or under the corresponding authority of section 6420(e)(2), 6421 (g)(2) or 6427(j)(2), the date fixed for appearance before the Secretary shall not be less than 10 days from the date of the summons.

Sec. 7610. Fees and costs for witnesses

(a) In general. - The Secretary shall by regulations establish the rates and conditions under which payment may be made of -

- (1) fees and mileage to persons who are summoned to appear before the Secretary, and
- (2) reimbursement for such costs that are reasonably necessary which have been directly incurred in searching for, reproducing, or transporting books, papers, records, or other data required to be produced by summons.

(b) Exceptions. - No payment may be made under paragraph (2) of subsection (a) if -

- (1) the person with respect to whose liability the summons is issued has a proprietary interest in the books, papers, records or other data required to be produced, or
- (2) the person summoned is the person with respect to whose liability the summons is issued or an officer, employee, agent, accountant, or attorney of such person who, at the time the summons is served, is acting as such.

(c) Summons to which section applies. - This section applies with respect to any summons authorized under section 6420(e)(2), 6421 (g)(2), 6427(j)(2), or 7602.

Sec. 7210. Failure to obey summons

Any person who, being duly summoned to appear to testify, or to appear and produce books, accounts, records, memoranda or other papers, as required under sections 6420(e)(2), 6421(g)(2), 6427(j)(2), 7602, 7603, and 7604(b), neglects to appear or to produce such books, accounts, records memoranda, or other papers, shall, upon conviction thereof, be fined not more than \$1,000, or imprisoned not more than 1 year, or both, together with costs of prosecution.

* * * * *

Notice of Payment Information for Recipients of IRS Summons

If you are a third-party recipient of a summons, you may be entitled to receive payment for certain costs directly incurred which are reasonably necessary to search for, reproduce, or transport records in order to comply with a summons.

This payment is made only at the rates established by the Internal Revenue Service to certain persons served with a summons to produce records or information in which the taxpayer does not have an ownership interest. The taxpayer to whose liability the summons relates and the taxpayer's officer, employee, agent, accountant, or attorney are not entitled to this payment. No payment will be made for any costs which you have charged or billed to other persons.

The rate for search costs is limited to the total amount of personnel time spent locating and retrieving documents or information requested by the summons. Specific salaries of such persons may not be included in search costs. In addition, search costs do not include salaries, fees, or similar costs for analysis of material or for managerial or legal advice, expertise, research, or time spent for any of these activities. If itemized separately, search costs may include the actual costs of extracting information stored by computer in the format in which it is normally produced, based on computer time and necessary supplies. Time for computer search may be paid.

Rates for reproduction costs for making copies or duplicates of summoned documents, transcripts, and other similar material may be paid at the allowed rates. Photographs, films, and other material are reimbursed at cost.

The rate for transportation costs is the same as the actual cost necessary to transport personnel to locate and retrieve summoned records or information, or costs incurred solely by the need to transport the summoned material to the place of examination.

In addition to payment for search, reproduction, and transportation costs, persons who appear before an Internal Revenue Service officer in response to a summons may request payment for authorized witness fees and mileage fees. You may make this request by contacting the Internal Revenue Service officer or by claiming these costs separately on the itemized bill or invoice as explained below.

Instructions for requesting payment

After the summons is served, you should keep an accurate record of personnel search time, computer costs, number of reproductions made, and transportation costs. Upon satisfactory compliance, you may submit an itemized bill or invoice to the Internal Revenue Service officer before whom you were summoned to appear, either in person or by mail to the address furnished by the Internal Revenue Service officer. Please write on the itemized bill or invoice the name of the taxpayer to whose liability the summons relates.

If you wish, Form 6863, Invoice and Authorization for Payment of Administrative Summons Expenses, may be used to request payment for search, reproduction, and transportation costs. Standard Form 1157, Claims for Witness Attendance Fees, Travel, and Miscellaneous Expenses, may be used to request payment for authorized witness fees and mileage fees. These forms are available from the Internal Revenue Service officer who issued the summons.

If you have any questions about the payment, please contact the Internal Revenue Service officer before whom you were summoned to appear.

Anyone submitting false claims for payment is subject to possible criminal prosecution.



Department of the Treasury
Internal Revenue Service

www.irs.gov

Form 2039 (Rev. 10-2010)
Catalog Number 21405J

- (a) Notice-
 - (1) In general. - If any summons to which this section applies requires the giving of testimony on or relating to, the production of any portion of records made or kept on or relating to, or the production of any computer software source code (as defined in 7612(d)(2)) with respect to, any person (other than the person summoned) who is identified in the summons, then notice of the summons shall be given to any person so identified within 3 days of the day on which such service is made, but no later than the 23rd day before the day fixed in the summons as the day upon which such records are to be examined. Such notice shall be accompanied by a copy of the summons which has been served and shall contain an explanation of the right under subsection (b)(2) to bring a proceeding to quash the summons.
 - (2) Sufficiency of notice. - Such notice shall be sufficient if, on or before such third day, such notice is served in the manner provided in section 7603 (relating to service of summons) upon the person entitled to notice, or is mailed by certified or registered mail to the last known address of such person, or, in the absence of a last known address, is left with the person summoned. If such notice is mailed, it shall be sufficient if mailed to the last known address of the person entitled to notice or, in the case of notice to the Secretary under section 6903 of the existence of a fiduciary relationship, to the last known address of the fiduciary of such person, even if such person or fiduciary is then deceased, under a legal disability, or no longer in existence.
 - (3) Nature of summons. - Any summons to which this subsection applies (and any summons in aid of collection described in subsection (c)(2)(D)) shall identify the taxpayer to whom the summons relates or the other person to whom the records pertain and shall provide such other information as will enable the person summoned to locate the records required under the summons.
- (b) Right to intervene; right to proceeding to quash. -
 - (1) Intervention. - Notwithstanding any other law or rule of law, any person who is entitled to notice of a summons under subsection (a) shall have the right to intervene in any proceeding with respect to the enforcement of such summons under section 7604.
 - (2) Proceeding to quash. -
 - (A) In general. - Notwithstanding any other law or rule of law, any person who is entitled to notice of a summons under subsection (a) shall have the right to begin a proceeding to quash such summons not later than the 20th day after the day such notice is given in the manner provided in subsection (a)(2). In any such proceeding, the Secretary may seek to compel compliance with the summons.
 - (B) Requirement of notice to person summoned and to Secretary. - If any person begins a proceeding under subparagraph (A) with respect to any summons, not later than the close of the 20-day period referred to in subparagraph (A) such person shall mail by registered or certified mail a copy of the petition to the person summoned and to such office as the Secretary may direct in the notice referred to in subsection (a)(1).
 - (C) Intervention, etc. - Notwithstanding any other law or rule of law, the person summoned shall have the right to intervene in any proceeding under subparagraph (A). Such person shall be bound by the decision in such proceeding (whether or not the person intervenes in such proceeding).
- (c) Summons to which section applies. -
 - (1) In general. - Except as provided in paragraph (2), this section shall apply to any summons issued under paragraph (2) of section 7602(a) or under sections 6420(e)(2), 6421(g)(2), 6427(j)(2), or 7612.
 - (2) Exceptions. - This section shall not apply to any summons
 - (A) served on the person with respect to whose liability the summons is issued, or any officer or employee of such person;
 - (B) issued to determine whether or not records of the business transaction or affairs of an identified person have been made or kept;
 - (C) issued solely to determine the identify of any person having a numbered account (or similar arrangement) with a bank or other institution described in section 7603(b)(2)(A);
 - (D) issued in aid of the collection of-
 - (i) an assessment made or a judgment rendered against the person with respect to whose liability the summons is issued, or
 - (ii) the liability at law or in equity of any transferee or fiduciary of any person referred to in clause; or
 - (E) (i) issued by a criminal investigator of the Internal Revenue Service in connection with the investigation of an offense connected with the administration or enforcement of the internal revenue laws, and
 - (ii) served on a person who is not a third-party recordkeeper (as defined in section 7603(b)).
 - (3) John Doe and Certain Other Summonses. - Subsection (a) shall not apply to any summons described in subsection (f) or (g).
 - (4) Records. - For purposes of this section, the term records includes books, papers, and other data.
- (5) Examination of records. - No examination of any records required to be produced under a summons as to which notice is required under subsection (a) may be made -
 - (1) before the close of the 23rd day after the day notice with respect to the summons is given in the manner provided in subsection (a)(2), or
 - (2) where a proceeding under subsection (b)(2)(A) was begun within the 20-day period referred to in such subsection and the requirements of subsection (b)(2)(B) have been met, except in accordance with an order of the court having jurisdiction of such proceeding or with the consent of the person beginning the proceeding to quash.
- (e) Suspension of Statute of Limitations. -
 - (1) Subsection (b) action. - If any person takes any action as provided in subsection (b) and such person is the person with respect to whose liability the summons is issued (or is the agent, nominee, or other person acting under the direction or control of such person), then the running of any period of limitations under section 6501 (relating to the assessment and collection of tax) or under section 6531 (relating to criminal prosecutions) with respect to such person shall be suspended for the period during which a proceeding, and appeals therein, with respect to the enforcement of such summons is pending.
 - (2) Suspension after 6 months of service of summons. - In the absence of the resolution of the summoned party's response to the summons, the running of any period of limitations under section 6501 or under section 6531 with respect to any person with respect to whose liability the summons is issued (other than a person taking action as provided in subsection (b)) shall be suspended for the period-
 - (A) beginning on the date which is 6 months after the service of such summons, and
 - (B) ending with the final resolution of such response.
- (f) Additional requirements in the case of a John Doe summons. -
 - Any summons described in subsection (c)(1) which does not identify the person with respect to whose liability the summons is issued may be served only after a court proceeding in which the Secretary establishes that -
 - (1) the summons relates to the investigation of a particular person or ascertainable group or class of persons,
 - (2) there is a reasonable basis for believing that such person or group or class of persons may fail or may have failed to comply with any provision of any internal revenue law, and
 - (3) the information sought to be obtained from the examination of the records or testimony (and the identity of the person or persons with respect to whose liability the summons is issued) is not readily available from other sources.
- (g) Special exception for certain summonses. -
 - A summons is described in this subsection if, upon petition by the Secretary, the court determines, on the basis of the facts and circumstances alleged, that there is reasonable cause to believe the giving of notice may lead to attempts to conceal, destroy, or alter records relevant to the examination, to prevent the communication of information from other persons through intimidation, bribery, or collusion, or to flee to avoid prosecution, testifying, or production of records.
- (h) Jurisdiction of district court; etc. -
 - (1) Jurisdiction. - The United States district court for the district within which the person to be summoned resides or is found shall have jurisdiction to hear and determine any proceedings brought under subsection (b)(2), (f), or (g). An order denying the petition shall be deemed a final order which may be appealed.
 - (2) Special rule for proceedings under subsections (f) and (g). - The determinations required to be made under subsections (f) and (g) shall be made ex parte and shall be made solely on the petition and supporting affidavits.
- (i) Duty of summoned party. -
 - (1) Recordkeeper must assemble records and be prepared to produce records. - On receipt of a summons to which this section applies for the production of records, the summoned party shall proceed to assemble the records requested, or such portion thereof as the Secretary may prescribe, and shall be prepared to produce the records pursuant to the summons on the day on which the records are to be examined.
 - (2) Secretary may give summoned party certificate. - The Secretary may issue a certificate to the summoned party that the period prescribed for beginning a proceeding to quash a summons has expired and that no such proceeding began within such period, or that the taxpayer consents to the examination.
 - (3) Protection for summoned party who discloses. - Any summoned party, or agent or employee thereof, making a disclosure of records or testimony pursuant to this section in good faith reliance on the certificate of the Secretary or an order of a court requiring production of records or the giving of such testimony shall not be liable to any customer or other person for such disclosure.
 - (4) Notice of suspension of statute of limitations in the case of a John Doe summons. - In the case of a summons described in subsection (f) with respect to which any period of limitations has been suspended under subsection (e)(2), the summoned party shall provide notice of such suspension to any person described in subsection (f).
- (j) Use of summons not required. -
 - Nothing in this section shall be construed to limit the Secretary's ability to obtain information, other than by summons, through formal or informal procedures authorized by sections 7601 and 7602.



Summons

In the matter of Tax Liability of John Does*

Internal Revenue Service (Division): Large Business & International Division

Industry/Area (name or number): Withholding & International Individual Compliance

Periods: Years ending 12/31/2013 through 12/31/2015

The Commissioner of Internal Revenue

To: Coinbase, Inc.

At: _____

You are hereby summoned and required to appear before David J. Utzke, Revenue Agent or Designee
an officer of the Internal Revenue Service, to give testimony and to bring with you and to produce for examination the following books, records, papers, and other data relating to the tax liability or the collection of the tax liability or for the purpose of inquiring into any offense connected with the administration or enforcement of the internal revenue laws concerning the person identified above for the periods shown.

See attachment

* "John Does" are United States persons who, at any time during the period January 1, 2013, through December 31, 2015, conducted transactions in a convertible virtual currency as defined in IRS Notice 2014-21.

Do not write in this space

Business address and telephone number of IRS officer before whom you are to appear:

1818 East Southern Avenue, Mesa, AZ 85204 / 626-927-1237

Place and time for appearance at Internal Revenue Service, 450 Golden Gate Avenue, San Francisco CA 94102



Department of the Treasury
Internal Revenue Service

www.irs.gov

Form 2039 (Rev. 10-2010)
Catalog Number 21405J

on the _____ day of _____, _____ at _____ o'clock _____ m.

Issued under authority of the Internal Revenue Code this _____^(year) day of _____, _____^(year)

Signature of issuing officer

Program Manager
Title

Signature of approving officer (if applicable)

Title

Part C — to be given to noticee



Provisions of the Internal Revenue Code

Sec. 7602. Examination of books and witnesses

(a) Authority to Summon, etc. - For the purpose of ascertaining the correctness of any return, making a return where none has been made, determining the liability of any person for any internal revenue tax or the liability at law or in equity of any transferee or fiduciary of any person in respect of any internal revenue tax, or collecting any such liability, the Secretary is authorized -

- (1) To examine any books, papers, records, or other data which may be relevant or material to such inquiry.
- (2) To summon the person liable for tax or required to perform the act, or any officer or employee of such person, or any person having possession, custody, or care of books of account containing entries relating to the business of the person liable for tax or required to perform the act, or any other person the Secretary may deem proper, to appear before the Secretary at a time and place named in the summons and to produce such books, papers, records, or other data, and to give such testimony, under oath, as may be relevant or material to such inquiry; and
- (3) To take such testimony of the person concerned, under oath, as may be relevant or material to such inquiry.

(b) Purpose may include inquiry into offense. - The purposes for which the Secretary may take any action described in paragraph (1), (2), or (3) of subsection (a) include the purpose of inquiring into any offense connected with the administration or enforcement of the internal revenue laws.

(c) Notice of contact of third parties. -

- (1) General Notice. - An officer or employee of the Internal Revenue Service may not contact any person other than the taxpayer with respect to the determination or collection of the tax liability of such taxpayer without providing reasonable notice in advance to the taxpayer that contacts with persons other than the taxpayer may be made.
- (2) Notice of specific contacts. - The Secretary shall periodically provide to a taxpayer a record of persons contacted during such period by the Secretary with respect to the determination or collection of the tax liability of such taxpayer. Such record shall also be provided upon request of the taxpayer.
- (3) Exceptions. - This subsection shall not apply-
 - (A) to any contact which the taxpayer has authorized,
 - (B) if the Secretary determines for good cause shown that such notice would jeopardize collection of any tax or such notice may involve reprisal against any person, or
 - (C) with respect to any pending criminal investigation.

(d) No administrative summons when there is Justice Department referral.-

- (1) Limitation of authority. - No summons may be issued under this title, and the Secretary may not begin any action under section 7604 to enforce any summons, with respect to any person if a Justice Department referral is in effect with respect to such person.
- (2) Justice Department referral in effect. - For purposes of this subsection-
 - (A) In general. - A Justice Department referral is in effect with respect to any person if-
 - (i) the Secretary has recommended to the Attorney General a grand jury investigation of, or the criminal prosecution of, such person for any offense connected with the administration or enforcement of the internal revenue laws or
 - (ii) any request is made under section 6103(h)(3)(B) for the disclosure of any return or return information (within the meaning of section 6103(b)) relating to such person.
 - (B) Termination. - A Justice Department referral shall cease to be in effect with respect to a person when-
 - (i) the Attorney General notifies the Secretary, in writing, that -
 - (I) he will not prosecute such person for any offense connected with the administration or enforcement of the internal revenue laws,
 - (II) he will not authorize a grand jury investigation of such person with respect to such an offense, or
 - (III) he will discontinue such a grand jury investigation.
 - (ii) a final disposition has been made of any criminal proceeding pertaining to the enforcement of the internal revenue laws which was instituted by the Attorney General against such person, or
 - (iii) the Attorney General notifies the Secretary, in writing, that he will not prosecute such person for any offense connected with the administration or enforcement of the internal revenue laws relating to the request described in sub paragraph (A)(ii).
- (3) Taxable years, etc., treated separately. - For purposes of this subsection, each taxable period (or, if there is no taxable period, each taxable event) and each tax imposed by a separate chapter of this title shall be treated separately.

(e) Limitation on examination on unreported income. - The Secretary shall not use financial status or economic reality examination techniques to determine the existence of unreported income of any taxpayer unless the Secretary has a reasonable indication that there is a likelihood of such unreported income.

Authority to examine books and witness is also provided under sec. 6420 (e)(2) - Gasoline used on farms: sec. 6421(g)(2) - Gasoline used for certain nonhighway purposes by local transit systems, or sold for certain exempt purposes; and sec. 6427(j)(2) - Fuels not used for taxable purposes.

Sec. 7603. Service of summons

(a) In general - A summons issued under section 6420(e)(2), 6421(g)(2), 6427(j)(2), or 7602 shall be served by the Secretary, by an attested copy delivered in hand to the person to whom it is directed, or left at his last and usual place of abode; and the certificate of service signed by the person serving the summons shall be evidence of the facts it states on the hearing of an application for the enforcement of the summons. When the summons requires the production of books, papers, records, or other data, it shall be sufficient if such books, papers, records, or other data are described with reasonable certainty

(b) Service by mail to third-party recordkeepers. -

- (1) In general. - A summons referred to in subsection (a) for the production of books, papers, records, or other data by a third-party recordkeeper may also be served by certified or registered mail to the last known address of such recordkeeper.
- (2) Third party record keeper. - For purposes of paragraph (1), the term *third-party recordkeeper* means -
 - (A) any mutual savings bank, cooperative bank, domestic building and loan association, or other savings institution chartered and supervised as a savings and loan or similar association under Federal or State law, any bank (as defined in section 581), or any credit union (within the meaning of section 501 (c)(14)(A));
 - (B) any consumer reporting agency (as defined under section 603(f) of the Fair Credit Reporting Act (15 U.S.C. 1681 a(f)));
 - (C) Any person extending credit through the use of credit cards or similar devices;
 - (D) any broker (as defined in section 3(a)(4) of the Securities Exchange Act of 1934 (15 U.S.C. 78c(a)(4));
 - (E) any attorney;
 - (F) any accountant;
 - (G) any barter exchange (as defined in section 6045(c)(3));
 - (H) any regulated investment company (as defined in section 851) and any agent of such regulated investment company when acting as an agent thereof;
 - (I) any enrolled agent; and
 - (J) any owner or developer of a computer software source code (as defined in section 7612(d)(2)). Subparagraph (J) shall apply only with respect to a summons requiring the production of the source code referred to in subparagraph (J) or the program and data described in section 7612(b)(1)(A)(ii) to which source code relates.

Sec. 7604. Enforcement of summons

(a) Jurisdiction of District Court. - If any person is summoned under the internal revenue laws to appear, to testify, or to produce books, papers, records, or other data, the United States district court for the district in which such person resides or is found shall have jurisdiction by appropriate process to compel such attendance, testimony, or production of books, papers, records, or other data.

(b) Enforcement. - Whenever any person summoned under section 6420(e)(2), 6421 (g)(2), 6427(j)(2), or 7602 neglects or refuses to obey such summons, or to produce books, papers, records, or other data, or to give testimony, as required, the Secretary may apply to the judge of the district court or to a United States Commissioner for the district within which the person so summoned resides or is found for an attachment against him as for a contempt. It shall be the duty of the judge or Commissioner to hear the application, and, if satisfactory proof is made, to issue an attachment, directed to some proper officer, for the arrest of such person, and upon his being brought before him to proceed to a hearing of the case; and upon such hearing the judge or the United States Commissioner shall have power to make such order as he shall deem proper, not inconsistent with the law for the punishment of contempts, to enforce obedience to the requirements of the summons and to punish such person for his default or disobedience.

* * * * *

Sec. 7605. Time and place of examination

(a) Time and place. - The time and place of examination pursuant to the provisions of section 6420(e)(2), 6421 (g)(2), 6427(j)(2), or 7602 shall be such time and place as may be fixed by the Secretary and as are reasonable under the circumstances. In the case of a summons under authority of paragraph (2) of section 7602, or under the corresponding authority of section 6420(e)(2), 6421 (g)(2) or 6427(j)(2), the date fixed for appearance before the Secretary shall not be less than 10 days from the date of the summons.

Sec. 7610. Fees and costs for witnesses

(a) In general. - The Secretary shall by regulations establish the rates and conditions under which payment may be made of -

- (1) fees and mileage to persons who are summoned to appear before the Secretary, and
- (2) reimbursement for such costs that are reasonably necessary which have been directly incurred in searching for, reproducing, or transporting books, papers, records, or other data required to be produced by summons.

(b) Exceptions. - No payment may be made under paragraph (2) of subsection (a) if -

- (1) the person with respect to whose liability the summons is issued has a proprietary interest in the books, papers, records or other data required to be produced, or
- (2) the person summoned is the person with respect to whose liability the summons is issued or an officer, employee, agent, accountant, or attorney of such person who, at the time the summons is served, is acting as such.

(c) Summons to which section applies. - This section applies with respect to any summons authorized under section 6420(e)(2), 6421 (g)(2), 6427(j)(2), or 7602.

Sec. 7210. Failure to obey summons

Any person who, being duly summoned to appear to testify, or to appear and produce books, accounts, records, memoranda or other papers, as required under sections 6420(e)(2), 6421(g)(2), 6427(j)(2), 7602, 7603, and 7604(b), neglects to appear or to produce such books, accounts, records memoranda, or other papers, shall, upon conviction thereof, be fined not more than \$1,000, or imprisoned not more than 1 year, or both, together with costs of prosecution.

* * * * *

To:

Date: XXXXXXXX

Address:

Enclosed is a copy of a summons served by the IRS to examine records made or kept by, or to request testimony from, the person summoned. If you object to the summons, you are permitted to file a lawsuit in the United States district court in the form of a petition to quash the summons in order to contest the merits of the summons.

If you are the taxpayer, see important information below on the suspensions of your periods of limitation under I.R.C. section 7609(e)(1) and (e)(2).

General Directions

1. You must file your petition to quash in the United States district court for the district where the person summoned resides or is found.
2. You must file your petition within 20 days from the date of this notice and pay a filing fee as may be required by the clerk of the court.
3. You must comply with the Federal Rules of Civil Procedure and local rules of the United States district court.

Instructions for Preparing Petition to Quash

1. Entitle your petition "Petition to Quash Summons."
2. Name the person or entity to whom this notice is directed as the petitioner.
3. Name the United States as the respondent.
4. State the basis for the court's jurisdiction, as required by Federal Rule of Civil Procedure. See Internal Revenue Code Section 7609(h).
5. State the name and address of the person or entity to whom this notice is directed and state that the records or testimony sought by the summons relate to that person or entity.
6. Identify and attach a copy of the summons.

7. State in detail every legal argument supporting the relief requested in your petition. See Federal Rules of Civil Procedure. Note that in some courts you may be required to support your request for relief by a sworn declaration or affidavit supporting any issue you wish to contest.
8. Your petition must be signed as required by Federal Rule of Civil Procedure 11.
9. Your petition must be served upon the appropriate parties, including the United States, as required by Federal Rule of Civil Procedure 4.
10. At the same time you file your petition with the court, you must mail a copy of your petition by certified or registered mail to the person summoned and to the IRS. Mail the copy for the IRS to the officer whose name and address are shown on the face of this summons. See 7609(b)(2)(B).

The court will decide whether the person summoned should be required to comply with the summons request.

Suspension of Periods of Limitation

If you are the taxpayer being examined/investigated by this summons and you file a petition to quash the summons (or if you intervene in any suit concerning the enforcement of this summons), your periods of limitation for assessment of tax liabilities and for criminal prosecutions will be suspended pursuant to I.R.C. section 7609(e)(1) for the tax periods to which the summons relates. Such suspension will be effective while any proceeding (or appeal) with respect to the summons is pending. Your periods of limitation will also be suspended under section 7609(e)(2) if the summoned person fails to fully respond to this summons for 6 months. The suspension under section 7609(e)(2) will begin 6 months after the summons is served and will continue until the summoned person finally resolves the obligation to produce the summoned information. You can contact the IRS officer identified on the summons for information concerning the suspension under section 7609(e)(2). If you contact the IRS officer for this purpose, please provide the following information: (1) your name, address, home and work telephone numbers and any convenient time you can be contacted and (2) a copy of the summons or a description of it that includes the date it was issued, the name of the IRS employee who issued it, and the name of the summoned person.

The relevant provisions of the Internal Revenue Code are enclosed with this notice. If you have any questions, please contact the Internal Revenue Service officer before whom the person summoned is to appear. The officer's name and telephone number are shown on the summons.



Department of the Treasury
Internal Revenue Service

www.irs.gov

Form 2039 (Rev. 10-2010)
Catalog Number 21405J

Part D — to be given to noticee

- (a) Notice-
- (1) In general. - If any summons to which this section applies requires the giving of testimony on or relating to, the production of any portion of records made or kept on or relating to, or the production of any computer software source code (as defined in 7612(d)(2)) with respect to, any person (other than the person summoned) who is identified in the summons, then notice of the summons shall be given to any person so identified within 3 days of the day on which such service is made, but no later than the 23rd day before the day fixed in the summons as the day upon which such records are to be examined. Such notice shall be accompanied by a copy of the summons which has been served and shall contain an explanation of the right under subsection (b)(2) to bring a proceeding to quash the summons.
 - (2) Sufficiency of notice. - Such notice shall be sufficient if, on or before such third day, such notice is served in the manner provided in section 7603 (relating to service of summons) upon the person entitled to notice, or is mailed by certified or registered mail to the last known address of such person, or, in the absence of a last known address, is left with the person summoned. If such notice is mailed, it shall be sufficient if mailed to the last known address of the person entitled to notice or, in the case of notice to the Secretary under section 6903 of the existence of a fiduciary relationship, to the last known address of the fiduciary of such person, even if such person or fiduciary is then deceased, under a legal disability, or no longer in existence.
 - (3) Nature of summons. - Any summons to which this subsection applies (and any summons in aid of collection described in subsection (c)(2)(D)) shall identify the taxpayer to whom the summons relates or the other person to whom the records pertain and shall provide such other information as will enable the person summoned to locate the records required under the summons.
- (b) Right to intervene; right to proceeding to quash. -
- (1) Intervention. - Notwithstanding any other law or rule of law, any person who is entitled to notice of a summons under subsection (a) shall have the right to intervene in any proceeding with respect to the enforcement of such summons under section 7604.
 - (2) Proceeding to quash. -
 - (A) In general. - Notwithstanding any other law or rule of law, any person who is entitled to notice of a summons under subsection (a) shall have the right to begin a proceeding to quash such summons not later than the 20th day after the day such notice is given in the manner provided in subsection (a)(2). In any such proceeding, the Secretary may seek to compel compliance with the summons.
 - (B) Requirement of notice to person summoned and to Secretary. - If any person begins a proceeding under subparagraph (A) with respect to any summons, not later than the close of the 20-day period referred to in subparagraph (A) such person shall mail by registered or certified mail a copy of the petition to the person summoned and to such office as the Secretary may direct in the notice referred to in subsection (a)(1).
 - (C) Intervention, etc. - Notwithstanding any other law or rule of law, the person summoned shall have the right to intervene in any proceeding under subparagraph (A). Such person shall be bound by the decision in such proceeding (whether or not the person intervenes in such proceeding).
- (c) Summons to which section applies. -
- (1) In general. - Except as provided in paragraph (2), this section shall apply to any summons issued under paragraph (2) of section 7602(a) or under sections 6420(e)(2), 6421(g)(2), 6427(j)(2), or 7612.
 - (2) Exceptions. - This section shall not apply to any summons
 - (A) served on the person with respect to whose liability the summons is issued, or any officer or employee of such person;
 - (B) issued to determine whether or not records of the business transaction or affairs of an identified person have been made or kept;
 - (C) issued solely to determine the identify of any person having a numbered account (or similar arrangement) with a bank or other institution described in section 7603(b)(2)(A);
 - (D) issued in aid of the collection of-
 - (i) an assessment made or a judgment rendered against the person with respect to whose liability the summons is issued, or
 - (ii) the liability at law or in equity of any transferee or fiduciary of any person referred to in clause; or
 - (E) (i) issued by a criminal investigator of the Internal Revenue Service in connection with the investigation of an offense connected with the administration or enforcement of the internal revenue laws, and
 - (ii) served on a person who is not a third-party recordkeeper (as defined in section 7603(b)).
 - (3) John Doe and Certain Other Summonses. - Subsection (a) shall not apply to any summons described in subsection (f) or (g).
 - (4) Records. - For purposes of this section, the term records includes books, papers, and other data.
- (d) Restriction on examination of records. - No examination of any records required to be produced under a summons as to which notice is required under subsection (a) may be made -
- (1) before the close of the 23rd day after the day notice with respect to the summons is given in the manner provided in subsection (a)(2), or
 - (2) where a proceeding under subsection (b)(2)(A) was begun within the 20-day period referred to in such subsection and the requirements of subsection (b)(2)(B) have been met, except in accordance with an order of the court having jurisdiction of such proceeding or with the consent of the person beginning the proceeding to quash.
- (e) Suspension of Statute of Limitations. -
- (1) Subsection (b) action. - If any person takes any action as provided in subsection (b) and such person is the person with respect to whose liability the summons is issued (or is the agent, nominee, or other person acting under the direction or control of such person), then the running of any period of limitations under section 6501 (relating to the assessment and collection of tax) or under section 6531 (relating to criminal prosecutions) with respect to such person shall be suspended for the period during which a proceeding, and appeals therein, with respect to the enforcement of such summons is pending.
 - (2) Suspension after 6 months of service of summons. - In the absence of the resolution of the summoned party's response to the summons, the running of any period of limitations under section 6501 or under section 6531 with respect to any person with respect to whose liability the summons is issued (other than a person taking action as provided in subsection (b)) shall be suspended for the period-
 - (A) beginning on the date which is 6 months after the service of such summons, and
 - (B) ending with the final resolution of such response.
- (f) Additional requirements in the case of a John Doe summons. - Any summons described in subsection (c)(1) which does not identify the person with respect to whose liability the summons is issued may be served only after a court proceeding in which the Secretary establishes that -
- (1) the summons relates to the investigation of a particular person or ascertainable group or class of persons,
 - (2) there is a reasonable basis for believing that such person or group or class of persons may fail or may have failed to comply with any provision of any internal revenue law, and
 - (3) the information sought to be obtained from the examination of the records or testimony (and the identity of the person or persons with respect to whose liability the summons is issued) is not readily available from other sources.
- (g) Special exception for certain summonses. - A summons is described in this subsection if, upon petition by the Secretary, the court determines, on the basis of the facts and circumstances alleged, that there is reasonable cause to believe the giving of notice may lead to attempts to conceal, destroy, or alter records relevant to the examination, to prevent the communication of information from other persons through intimidation, bribery, or collusion, or to flee to avoid prosecution, testifying, or production of records.
- (h) Jurisdiction of district court; etc. -
- (1) Jurisdiction. - The United States district court for the district within which the person to be summoned resides or is found shall have jurisdiction to hear and determine any proceedings brought under subsection (b)(2), (f), or (g). An order denying the petition shall be deemed a final order which may be appealed.
 - (2) Special rule for proceedings under subsections (f) and (g). - The determinations required to be made under subsections (f) and (g) shall be made ex parte and shall be made solely on the petition and supporting affidavits.
- (i) Duty of summoned party. -
- (1) Recordkeeper must assemble records and be prepared to produce records. - On receipt of a summons to which this section applies for the production of records, the summoned party shall proceed to assemble the records requested, or such portion thereof as the Secretary may prescribe, and shall be prepared to produce the records pursuant to the summons on the day on which the records are to be examined.
 - (2) Secretary may give summoned party certificate. - The Secretary may issue a certificate to the summoned party that the period prescribed for beginning a proceeding to quash a summons has expired and that no such proceeding began within such period, or that the taxpayer consents to the examination.
 - (3) Protection for summoned party who discloses. - Any summoned party, or agent or employee thereof, making a disclosure of records or testimony pursuant to this section in good faith reliance on the certificate of the Secretary or an order of a court requiring production of records or the giving of such testimony shall not be liable to any customer or other person for such disclosure.
 - (4) Notice of suspension of statute of limitations in the case of a John Doe summons. - In the case of a summons described in subsection (f) with respect to which any period of limitations has been suspended under subsection (e)(2), the summoned party shall provide notice of such suspension to any person described in subsection (f).
- (j) Use of summons not required. - Nothing in this section shall be construed to limit the Secretary's ability to obtain information, other than by summons, through formal or informal procedures authorized by sections 7601 and 7602.

Suspension of Corporate Taxpayer's Period of Limitations on Assessment If a Court Proceeding is Brought Regarding a Designated or Related Summons

The IRS may issue designated or related summonses to examine the tax liability of certain corporations. A designated summons will be identified by a statement at the top of the summons that reads: "This is a designated summons pursuant to IRC 6503(j)." A related summons will be identified by a similar statement at the top of the summons indicating that it is a related summons issued pursuant to I.R.C. sec. 6503(j).

If you are a corporate taxpayer and the IRS has issued a designated or related summons to investigate your tax liability, your period of limitations on assessment will be suspended if a court proceeding concerning the summons is begun. This suspension will be effective on

the day the court proceeding is brought. If the court orders any compliance with the summons, the suspension will continue until 120 days after the summoned person finally resolves his response to the summons. If the court does not order any compliance with the summons, then the period of limitations will resume running on the day after final resolution (but the period of limitations will not expire before the 60th day after final resolution).

To obtain information about the dates of the suspension under section 6503(j), you can contact the IRS officer before whom the person summoned is to appear. The officer's name and telephone number are identified on the summons.



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Internal Revenue Service

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Part E — to be given to the corporate taxpayer only if
this is a designated or related summons

(1) In General—

If any designated summons is issued by the Secretary to a corporation (or to any other person to whom the corporation has transferred records) with respect to any return of tax by such corporation for a taxable year (or other period) for which such corporation is being examined under the coordinated examination program (or any successor program) of the Internal Revenue Service, the running of any period of limitations provided in section 6501 on the assessment of such tax shall be suspended—

(A) during any judicial enforcement period--

- (i) with respect to such summons, or
- (ii) with respect to any other summons

which is issued during the 30-day period which begins on the date on which such designated summons is issued and which relates to the same return as such designated summons, and

(B) if the court in any proceeding referred to in paragraph (3) requires any compliance with a summons referred to in subparagraph (A), during the 120 day period beginning with the 1st day after the close of the suspension under subparagraph (A).

If subparagraph (B) does not apply, such period shall in no event expire before the 60th day after the close of the suspension under subparagraph (A).

(A) In General -- The term "designated summons" means any summons issued for purposes of determining the amount of any tax imposed by this title if--

(i) the issuance of such summons is preceded by a review of such issuance by the regional counsel of the Office of Chief Counsel for the region in which the examination of the corporation is being conducted,

(ii) such summons is issued at least 60 days before the day on which the period prescribed in section 6501 for the assessment of such tax expires (determined with regard to extensions), and

(iii) such summons clearly states that it is a designated summons for purposes of this subsection.

(B) Limitation -- A summons which relates to any return shall not be treated as a designated summons if a prior summons which relates to such return was treated as a designated summons for purposes of this subsection.

(3) Judicial Enforcement Period -- For purposes of this subsection, the term "judicial enforcement period" means, with respect to any summons, the period --

(A) which begins on the day on which a court proceeding with respect to such summons is brought, and

(B) which ends on the day on which there is a final resolution as to the summoned person's response to such summons.

In the Matter of Tax Liability of John Does
Attachment to Form 2039 Summons to Coinbase, Inc. (d/b/a Coinbase)

DOCUMENTS

For each Coinbase user for which your records show any U.S. address, U.S. telephone number, U.S. e-mail domain, or U.S. bank account, produce the following records for the period January 1, 2013 through December 31, 2015 unless otherwise stated:

1. Account/wallet/vault registration records for each account/wallet/vault owned or controlled by the user during the period stated above including, but not limited to, complete user profile, history of changes to user profile from account inception, complete user preferences, complete user security settings and history (including confirmed devices and account activity), complete user payment methods, and any other information related to the funding sources for the account/wallet/vault, regardless of date.
2. Any other records of Know-Your-Customer due diligence performed with respect to the user not included in paragraph 1, above.
3. For any account/wallet/vault with respect to which the registered user gave any third party access, control, or transaction approval authority, all powers of attorney, letters of wishes, corporate minutes, or other agreements or instructions granting the third party such access, control, or approval authority.
4. All records of account/wallet/vault activity including transaction logs or other records identifying the date, amount, and type of transaction (purchase/sale/exchange), the post transaction balance, the names or other identifiers of counterparties to the transaction; requests or instructions to send or receive bitcoin; and, where counterparties transact through their own Coinbase accounts/wallets/vaults, all available information identifying the users of such accounts and their contact information.
5. For each merchant user for which you act as Payment Service Provider, records of all payments processed, including records identifying the user of the wallet charged, if a Coinbase user, or the address of the wallet charged, if not, the date and amount of the transaction, and any other information that will enable the merchant to identify the transaction.
6. All correspondence between Coinbase and the user or any third party with access to the account/wallet/vault pertaining to the account/wallet/vault, including but not limited to letters, memoranda, telegrams, telexes, facsimiles, e-mail, letters of instruction, and memoranda of telephone or oral instructions received.
7. All periodic statements of account or invoices (or the equivalent).

In the Matter of Tax Liability of John Does
Attachment to Form 2039 Summons to Coinbase, Inc. (d/b/a Coinbase)

8. All records of payments to or from the user by checks, wire or other electronic transfer, ACH transaction, PayPal transfer, credit or debit card transaction, money order, transfer to or from other digital currency wallet address, or any other method, including records reflecting the form, manner, nature, and purpose of such payment including, but not limited to, ABA routing number and other routing information, payment instructions, and any and all invoices, billing statements, receipts, or other documents memorializing and describing such transaction.
9. All exception reports produced by your AML system, and all records of investigation of such exceptions.

For the purpose of this summons, you are required to produce all documents described in this attachment, whether located in the United States or otherwise, that are in your possession, custody, or control, or otherwise accessible or available to you either directly or through other entities.

INSTRUCTIONS FOR PRODUCTION OF ELECTRONICALLY STORED RECORDS

If the records requested herein are stored in your record retention systems and/or by your technology, data, or other service providers, it should be produced on electronic media according to the following criteria:

I. Text Data

- A. Text data relating to transactions shall be produced within a data file:
 1. Using a delimited ASCII text data format; or
 2. Using software that can export to a commonly readable, nonproprietary file format without loss of data.
 3. If text data is stored in a format readable only by proprietary software, provide a copy of software necessary to enable the data to be retrieved, manipulated, and processed by a computer.
- B. Text data files relating to transactions shall include field descriptions (e.g., account number, date/time, description, payee/payor, check number, item identifier, amount, etc.)

II. Image Data

- A. Image data shall be produced in graphic data files in a commonly readable, nonproprietary format with the highest image quality maintained.
- B. Image data of items associated with transactions (e.g., cancelled checks, deposit slips, etc.) shall be:
 1. Produced in individual graphic data files with any associated endorsements;
 2. Linked to corresponding text data by a unique identifier; and

In the Matter of Tax Liability of John Does
Attachment to Form 2039 Summons to Coinbase, Inc. (d/b/a Coinbase)

3. Image collections, OCR (optical character recognition), and image linking files must be produced in a Concordance load-ready format, ideally in a Concordance database.

III. Encryption/Authentication

- A. Electronically stored records may be transmitted in an encrypted container. Decryption keys and/or passwords shall be produced separately at the time the data is produced.
- B. Authentication, such as hash coding, may be set by agreement.
- C. Affidavits or certificates of authenticity for the records may be included as part of the electronic production.

If you have questions about the format in which to provide electronic data, please contact Revenue Agent David J. Hoozko by telephone at (626) 927-1237.

Before you produce any of the above-listed records, please contact Revenue Agent Utzke by telephone at (626) 927-1237 to discuss the terms of compliance.

The personal appearance requirement is waived when the requested information is furnished by mail to Revenue Agent Utzke at 1818 East Southern Avenue, Mesa, AZ 85204.