

United States v. Ahlgren: A Study in Lost Cryptocurrency Tax Revenue

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On December 12, 2024, in *United States v. Ahlgren*, the U.S. District Court for the Western District of Texas sentenced Frank Richard Ahlgren to 24 months in prison. The Department of Justice described the case as the “[first criminal tax evasion prosecution centered solely on cryptocurrency](#).” Ahlgren, an early investor in Bitcoin, was charged in a seven-count indictment with [filing false tax returns](#), based on the underreporting of cryptocurrency gains, and [structuring cash deposits](#) to evade financial institutions’ [reporting requirements](#) for transactions in currency over \$10,000. Ahlgren pleaded guilty to one count of “willfully making and subscribing a false [2017] tax return in violation of [Internal Revenue Code (IRC)] § 7206(1).” According to the sentencing memorandum, in 2017, Ahlgren sold Bitcoin for about 10 times the price that he paid for it in 2015. Ahlgren obscured his Bitcoin transactions on the [blockchain](#) by using [mixers](#) and peer-to-peer exchanges, hid his earnings from Bitcoin by structuring cash deposits, and concealed his gains from Bitcoin sales by providing false information to his tax preparer.

The circumstances surrounding the *Ahlgren* case highlight the challenges the Internal Revenue Service (IRS) faces in relying on self-reported income from digital asset transactions to determine taxable income. In July 2025, Congress passed the Guiding and Establishing National Innovation for U.S. Stablecoins (GENIUS) Act, P.L. [119-27](#), which directs the Secretary of the Department of the Treasury to study and seek public comment on ways to improve the detection of illicit activity involving digital assets.

This Legal Sidebar provides background on the taxation of Bitcoin, summarizes *Ahlgren*, and concludes with considerations for Congress related to taxpayers who use digital assets to evade taxes and third-party information reporting requirements.

Taxation of Bitcoin

On March 26, 2014, the IRS announced, in IRS Notice [2014-21](#), that “virtual currency” would be [treated like property](#), not like [foreign currency](#), for tax purposes. In the same notice, the IRS identified Bitcoin as a “[virtual currency](#).” When a [taxpayer sells Bitcoin for cash](#), a taxpayer has a taxable [gain](#) if the amount received exceeds the taxpayer’s basis in the Bitcoin sold. Usually, a taxpayer’s [basis](#) in Bitcoin is the Bitcoin’s cost.

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In general, individual taxpayers holding Bitcoin as a [capital asset](#)—typically an [asset not held for sale in a trade or business](#)—report Bitcoin sales and exchanges on IRS Form 8949, *Sales and Other Dispositions of Capital Assets*. These amounts flow through to IRS Schedule D (Form 1040), *Capital Gains and Losses*, to determine a taxpayer’s “overall gain or loss” from IRS Form 8949 transactions. A taxpayer’s overall [capital gain](#) is reported on IRS Form 1040, *U.S. Individual Income Tax Return*, to determine taxable income.

United States v. Ahlgren

Procedural History

On February 6, 2024, a [federal grand jury](#) indicted Ahlgren. The first three counts of the indictment concerned allegations that Ahlgren willfully made and subscribed false 2017, 2018, and 2019 tax returns under penalties of perjury in violation of IRC Section 7206(1). The last four counts of the indictment concerned allegations that Ahlgren structured cash deposits to not exceed \$10,000 “to avoid triggering the filing of a CTR [[Currency Transaction Report](#)] by [a] financial institution,” in violation of 31 U.S.C. § 5324(a)(3). At a federal detention hearing, after the government presented evidence of Ahlgren’s ties to [El Salvador](#) and his access to Bitcoin worth millions of dollars, a U.S. magistrate judge detained Ahlgren, finding that he was a flight risk.

In September 2024, Ahlgren pleaded guilty to willfully making and subscribing a false tax return for the 2017 tax year in violation of IRC Section 7206(1). Then, in December 2024, a U.S. District Court judge in the Western District of Texas sentenced Ahlgren to 24 months in prison, followed by one year of supervised release, and ordered him to pay \$1,095,031 in restitution. To preserve Ahlgren’s property for the restitution obligation, on January 6, 2025, the federal district court judge issued a temporary restraining order. The order restricted Ahlgren from taking action with regard to his property without court approval, required Ahlgren to submit a financial statement form, and instructed him and his associates to identify his cryptocurrency and provide information that would allow the government to gain [access](#) to it.

Ahlgren’s 2017 Tax Year

Ahlgren began purchasing Bitcoin as early as 2011. In 2015, Ahlgren purchased approximately 1,366 Bitcoins through his Coinbase accounts when Bitcoin’s highest value was roughly \$495.56 per unit. Then, on October 23, 2017, he sold approximately 640 Bitcoins worth about \$5,807.53 per unit, or around \$3.7 million total. Using mostly funds from this Bitcoin sale, Ahlgren purchased a home in Park City, Utah, in 2017.

The government hired an expert employed by a “cryptocurrency-investigations firm that uses data on the blockchain to trace cryptocurrency transactions and to assist in identifying individuals involved in particular digital assets.” Using an industry standard software program, the expert produced a report that analyzed Ahlgren’s transactions on the blockchain and traced the flow of Ahlgren’s Bitcoin. The expert applied the “clustering” method to group together several wallets and public addresses on the blockchain that were attributable to Ahlgren and to demonstrate that one person was responsible for the Bitcoin spending. The expert also clustered addresses that the government discovered were under Ahlgren’s control based on “account evidence from Coinbase, Mount Gox, local bitcoins, witness interviews, and search warrant evidence (‘Granny Wallets’).” Of the 640 Bitcoins Ahlgren sold on October 23, 2017, to buy the Utah home, the government’s expert traced 493 Bitcoins through multiple wallets to Ahlgren’s Coinbase accounts and the remaining 147 Bitcoins to a Granny Wallet and ShapeShift.

After Ahlgren bought the Utah home, he emailed his accountant and tax preparer. Ahlgren informed his tax preparer that he was concerned about his tax liability arising from the sale of Bitcoin. Ahlgren's tax preparer recommended that he make a "[G]ood faith effort" to report his gain and use his "best recollection and estimates to determine [his] cost basis."

Instead of heeding his tax preparer's tax advice, "Ahlgren prepared and submitted to [his tax preparer] a false summary of his purported gains and losses from the sale of bitcoin" to lower his taxable income and pay less tax. For example, Ahlgren's spreadsheet inflated his basis in the Bitcoins he sold in 2017 by reporting that he "purchased many of the bitcoins at prices that exceeded the highest" market price in the period prior to his Utah home purchase. The highest price for Bitcoin in 2015 was \$495.56, but Ahlgren reported that he purchased some Bitcoins at \$9,470. Ahlgren's tax preparer used this false information to prepare Ahlgren's 2017 tax return, which Ahlgren signed.

Ahlgren pleaded guilty to willfully making and subscribing a false 2017 tax return. He filed a false tax return for the 2017 tax year, which misreported his Bitcoin transactions. If Ahlgren had properly reported his Bitcoin transactions, then he would have owed an additional \$1,095,031 in taxes—which was also the amount the court ordered Ahlgren to pay in restitution.

Ahlgren's 2018 and 2019 Tax Years

In 2018, Ahlgren sold around 38 Bitcoins worth approximately \$398,000 to buy gold coins, which the government's expert managed to trace. Ahlgren's tax preparer had reminded him to report a gain or loss on the sale of Bitcoin. In a separate 2018 transaction, Ahlgren sold around 13 Bitcoins to an individual for approximately \$125,000 in cash. Ahlgren met with the individual in person to conduct a peer-to-peer transaction—a transaction not on a centralized exchange, such as Coinbase, or through a service, such as BitPay, a digital asset payment processor. Ahlgren did not report either sale on his 2018 tax return.

In 2019, Ahlgren "sold at least 29 bitcoins to the same individual for" approximately \$170,000 in cash. Ahlgren told his tax preparer that he had no cryptocurrency transactions in 2019 and also misled his tax preparer "about the source of multiple large cash deposits" in his bank accounts that were all slightly less than \$10,000. Ahlgren did not report the cash sale on his 2019 tax return.

In addition, Ahlgren sought to defeat the ability of software programs to cluster and trace his transactions by using "joiners" and mixers—applications that obscure the source and destination of cryptocurrency. Despite these attempts, the government's expert traced the flow of Bitcoins from Ahlgren to the individual. "The dates and amount of bitcoins transferred corresponded with large deposits of cash into Ahlgren's bank accounts."

Even though the government's expert could trace the Bitcoins sold in 2018 and 2019, the IRS was unable to "reliably comput[e]" Ahlgren's basis in the Bitcoins sold to the individual "[d]ue to [Ahlgren's] use of CoinJoin and the multiple hops prior to mixing." Ahlgren did not plead guilty to willfully making and subscribing false tax returns for the 2018 and 2019 tax years or to structuring cash deposits to evade financial institutions' reporting requirements for transactions in currency over \$10,000. However, the government argued that Ahlgren's use of "mixers, multiple hops, peer-to-peer exchanges for cash, and structuring cash deposits into his bank accounts" warranted a sophisticated means enhancement—an increase to the length of Ahlgren's sentence.

Considerations for Congress

As *Ahlgren* shows, relying solely on a taxpayer's self-reported income from cryptocurrency transactions can result in lost revenue. The IRS [uses](#) third-party information reporting in tax administration "to verify self-reported income and tax liability reported on tax returns." The probability of detecting tax evasion

increases with “reliable and objective third-party verification of income.” Third-party information reporting can also help [prioritize enforcement resources](#) by identifying taxpayers who properly report transactions on their income tax returns. In 2021, Section [80603](#) of the Infrastructure Investment and Jobs Act (IIJA) amended IRC Section [6045](#) to [expressly](#) extend the third-party information reporting requirements on “brokers” to cover certain digital asset transactions. As amended, “brokers” are required to file information returns with the IRS, which report a customer’s [gross proceeds](#) from digital asset sales and a customer’s [basis](#) in digital assets sold.

On July 10, 2024, the Treasury Inspector General for Tax Administration (TIGTA) issued a [report](#) on the IRS’s [effectiveness](#) in identifying income from virtual currency transactions. In the report, TIGTA concluded that the IRS’s Criminal Investigation Division (CI) [has](#) “taken advantage of analytics tools to address digital assets noncompliance.” Since 2014, CI [has used](#) these tools to “identify potential fraud cases involving digital assets such as money laundering and investment fraud.” CI [has](#) “successfully worked with blockchain analytics firms to identify individuals who may be” using digital assets to hide their income and evade taxes. CI special agents also [use](#) these tools to detect digital asset transactions that fund criminal activity. From FY2018 to FY2023, CI investigated 390 cases involving digital assets and recommended 224 cases for prosecution. The value of digital asset seizures in CI’s cases [increased](#) from approximately \$1.5 million in FY2018 to approximately \$7 billion in FY2022. In contrast, TIGTA “[found](#) that the civil examination enforcement efforts are mostly indirect and negligible when it comes to identifying digital asset transactions.” The report stated selected employees working in the IRS’s civil compliance areas had [access to](#) “a subset of the tools Criminal Investigation uses to identify digital asset noncompliance.”

Based on TIGTA’s findings, TIGTA [recommended](#) that the IRS “develop a compliance plan that includes the use of [IRS] Form [1099-DA](#) [Digital Asset Proceeds From Broker Transactions] data, case identification, and case selection of digital asset cases.” Although IRS Form [1040](#) currently requires taxpayers to self-report digital asset transactions, TIGTA [emphasized](#) that it was “difficult for the IRS to identify taxpayers with digital asset transactions in part because of the lack of third-party information reporting and guidance regarding those requirements.” The IRS [agreed](#) with TIGTA’s IRS Form 1099-DA recommendation. Even so, the IRS [stated](#) that the amendments made to IRC Section 6045 were “not self-executing and that final regulations are required before [IRS] Form 1099-DA and the information required on the form can be finalized for filing with the IRS.”

The Department of the Treasury and the IRS released final regulations implementing the amendments to IRC Section 6045 in [two parts](#). On July 9, 2024, the [final regulations](#) on “information reporting and the determination of amount realized and basis for certain digital asset sales and exchanges” were published in the *Federal Register*. These final regulations addressed IRC Section 6045’s application to “brokers” that act as [agents](#) or [dealers](#) for their customers in digital asset transactions. For example, the July 9, 2024, regulations [apply to](#) “operators of custodial digital asset trading platforms, certain digital asset hosted wallet providers, certain PDAPs [processors of digital asset payments], and digital asset kiosks, as well as to certain real estate reporting persons that are already subject to the broker reporting rules.” The July 9, 2024, regulations [did not address](#) whether [decentralized finance](#) (“DeFi”) participants were “brokers” under the amended IRC Section 6045.

On December 30, 2024, the IRS published the second part—the [final regulations](#) on “information reporting by brokers that regularly provide services effectuating certain digital asset sales and exchanges” in the *Federal Register*. These final regulations sought to address [when](#) DeFi participants would be considered “brokers” under the amendments to IRC Section 6045, and thus subject to information reporting requirements. The December 30, 2024, regulations [acknowledged](#) potential issues arising from imposing reporting requirements on DeFi participants that could not identify the parties in a digital asset transaction or the nature of the digital asset transaction. Pursuant to the [Congressional Review Act](#), Congress passed a [joint resolution of disapproval](#) concerning the December 30, 2024, regulations. The President [signed](#) the resolution on April 10, 2025. Therefore, the December 30, 2024, regulations have no [effect](#).

Due to the nature of the [decentralized digital asset ecosystem](#), the government’s ability to gather reliable and objective information from third parties about income received in digital asset transactions is [limited](#). On July 18, 2025, the President signed the GENIUS Act, P.L. [119-27](#), which [directed](#) the Treasury Secretary to “seek public comment to identify innovative or novel methods, techniques, or strategies that regulated financial institutions use, or have the potential to use, to detect illicit activity . . . involving digital assets.” In the Treasury Department’s [August 18, 2025, notice](#) requesting public comment, the Treasury Department [specifically requested](#) comments on “how financial institutions are integrating information from blockchain analytics with off-chain data and . . . key challenges associated with using blockchain analytics (e.g., obfuscation tools and methods that can complicate tracing and assessing confidence in attribution or complexities inherent in cluster analysis).” The GENIUS Act [also directs](#) the Treasury Secretary to submit a report to the Senate Committee on Banking, Housing, and Urban Affairs and the House Committee on Financial Services on “the extent to which transactions on distributed ledgers, digital asset mixing services, tumblers, or other similar services that mix payment stablecoins in such a way as to make such transaction or the identity of the transaction parties less identifiable may facilitate illicit activity.”

Congress may consider supporting IRS adoption of private-sector methods, techniques, and strategies to detect unreported digital asset transactions, extending the statute of limitations for [assessing](#) and [collecting](#) taxes related to digital asset transactions, and creating additional [civil](#) and [criminal](#) penalties aimed at [unreported](#) digital asset transactions.

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