

US Tax Treatment Questionnaire — Polymarket Trading Operations (Florida LLC)

Prepared for our US CPA / tax advisor. Purpose: determine the correct federal tax treatment and the exact report formats so our in-house accounting tool computes and exports precisely what you need.

Context

We operate automated trading strategies on **Polymarket** — a blockchain-based prediction-market / event-contract platform — through a **Florida LLC**. Positions settle in **USDC** (a USD-pegged stablecoin) on the Polygon network via Polymarket's smart contracts and **Gnosis-Safe proxy wallets**.

We are building an in-house accounting tool that:

- Independently pulls **every transaction of every trading account directly from Polymarket** (not from our own trading database) and stores an **immutable, audit-traceable ledger** — each entry backed by a blockchain transaction hash / platform activity ID and a stored raw-data snapshot.
- Reconciles each account against its **on-chain USDC balance** as a completeness check.
- Produces **per-account and consolidated period statements** (monthly and custom date ranges) and will produce **US federal tax computations** (Form 8949 / Schedule D-style) under assumptions **you specify**.

Transaction/event types we capture per account: buys, sells, redemptions (winning-position payouts at market resolution), losing positions expiring worthless, trading fees, maker rewards / rebates, on-chain USDC deposits and withdrawals.

Where a treatment is uncertain, we will implement **your chosen approach as a documented, configurable assumption** that is disclosed on every export. Please answer as many items as are relevant.

A. Entity, filing & registration

1. Federal classification of the LLC: **single-member (disregarded entity)** or **multi-member (partnership, Form 1065 + Schedules K-1)**? Any election to be taxed as **S-corp / C-corp** (Form 2553 / 8832)?
2. Which federal forms/schedules will this activity flow into (e.g., Schedule C, Schedule D + Form 8949, Form 1065/K-1, Form 4797)?
3. Florida has no personal state income tax — is there anything at the entity level we must reflect, or is this **federal only**? Any Florida annual-report items affecting our accounting?
4. EIN and tax year (we assume calendar year)?

B. Character & classification of Polymarket P&L

5. How should gains/losses from Polymarket **event contracts** be characterized: **capital gains/losses** (Form 8949 / Schedule D), **ordinary income**, **gambling winnings/losses**, **§1256 contracts** (60/40, mark-to-market), or **other**?

6. Do you regard these instruments as **securities, commodities, swaps, wagering transactions, or property**? Does the characterization differ by market type (e.g., sports vs. politics vs. crypto-price)?
7. If capital: our holding periods are effectively always **under one year** — do you want everything reported as **short-term**, or should we still compute per-lot holding periods (acquisition -> disposition)?
8. If gambling treatment applies: how should we present winnings vs. losses (losses limited to winnings; per-wager vs. session netting)?

C. Trader Tax Status & §475(f) mark-to-market

9. Given the volume and automation, could the LLC qualify for **Trader Tax Status (TTS)**? Do you recommend a **§475(f) mark-to-market election** (ordinary gain/loss, no wash-sale, no capital-loss limitation, year-end MTM)?
10. If §475(f) MTM applies, what **price source and timing** would you accept to mark **open positions** at period/year end (last trade, mid-price, resolution probability)?
11. **Self-employment tax**: does this activity create SE-tax exposure, or is it exempt (trading gains generally not SE income)?

D. Cost basis & lot accounting

12. Cost-basis method: **FIFO** (our default), **specific identification**, or other? Any documentation requirements for specific-ID?
13. Should trading **fees** be **capitalized into basis / netted against proceeds**, or deducted **separately** as expenses?
14. **Redemption** (winning shares pay out at resolution): treat as a disposition at **\$1.00/share** proceeds against lot basis? **Losing shares** expiring worthless: treat as a disposition at **\$0** (realized loss) on the resolution date?
15. Partial fills within one transaction: acceptable to **aggregate same-tx fills into one lot**?

E. USDC / stablecoin treatment

16. May we treat **USDC as a USD cash-equivalent (1:1)**, so acquiring/spending USDC is **not** itself a separate taxable crypto disposition? Or must USDC be tracked as **property** with its own basis?
17. If USDC must be tracked as property, what **USD valuation source/timing** per transaction do you require?

F. Wash-sale & related rules

18. Do **wash-sale rules (§1091)** apply to these instruments (they are not traditional "stock or securities," and crypto is currently generally exempt)? If potentially applicable, should the tool **flag/adjust** wash sales?
19. Are **straddle (§1092)** or **constructive-sale** rules relevant to any hedged/paired positions?

G. Income items & deductions

20. **Maker rewards / liquidity rebates** received in USDC: **ordinary income at fair value on receipt**? Where reported? Does receipt create a **new USDC lot** at that value?

21. Deductible business **expenses** (platform/trading fees, Polygon gas/POL, infrastructure, software, this tooling): where and how (Schedule C vs. netted)?
22. Will Polymarket issue any **1099** (likely not, as a non-US operator)? If so, how should we reconcile to it?

H. Foreign account / information reporting

23. Is a Polymarket account (funds in a Polygon **Gnosis-Safe proxy** on a non-US platform) a "**foreign financial account**" triggering **FBAR (FinCEN Form 114)** above the \$10,000 aggregate threshold?
24. Does **FATCA / Form 8938** reporting apply (specified foreign financial assets)?
25. Is **Form 8886** (reportable transactions) or any other information return relevant?
26. Any concerns arising from Polymarket's **US regulatory status** that affect characterization or reporting?

I. Currency & valuation

27. Reporting/functional currency: **USD** confirmed? We also generate **EUR** figures — needed for the US filing, or purely internal/EU personal use?
28. FX source/timing: for non-USD figures, is the **ECB daily reference rate at transaction date** acceptable? For **USDC->USD**, is **1:1** acceptable or do you require actual spot?

J. Report format & delivery (so we tailor exports to you)

29. Preferred deliverables: **Form 8949 CSV in the exact IRS column layout**, a **general-ledger** export, a **Schedule D summary**, and/or a **PDF statement**? Which formats do you want?
30. Level: **per-account** statements, a **consolidated LLC** view, or both?
31. Cadence: **monthly** bookkeeping packages plus an **annual** tax package? Do you need **quarterly estimated-tax** figures?
32. Exact **columns/fields** on the disposition report (e.g., Description of property, Date acquired, Date sold, Proceeds, Cost basis, Wash-sale adjustment, Gain/loss, Short/Long)?
33. **Audit-defensibility** documentation you want attached (methodology page, source transaction hashes, raw-data retention, reconciliation to on-chain balances)?
34. Rounding/precision conventions (whole USD vs. cents)?

K. Anything else

35. Any other **elections, forms, thresholds, or record-keeping standards** we should build into the tool now to make your work smooth and the LLC's filings defensible?

We will encode your answers as the tool's default assumptions, each disclosed on every statement and adjustable in settings. Thank you.