

Cryptocurrency Taxation FAQs

Currency or Property?

Cryptocurrency is considered “property” by the IRS, *not true currency*, and will carry the tax attributes of other property within the tax laws.

What is an example of cryptocurrency taxed as “property”?

If you own Cryptocurrency A worth \$20,000 and exchange it for Cryptocurrency B for \$25,000, you then have a \$5,000 capital gain to report on your tax return.

Is there a new cryptocurrency question on the 1040?

Yes, the new draft IRS FORM 1040 asks, “At any time during 2020, did you receive, sell, send, exchange, or otherwise acquire any financial interest in any virtual currency?” Even if you had no gain or loss to report, if you engaged in a cryptocurrency transaction itself, then you should answer this question, yes.

Where is cryptocurrency reported on a tax return?

Most commonly, it is reported on Schedule D and Form 8949; it may also be reported on Schedule C if you received cryptocurrency for services rendered or for employment. If you bought and sold cryptocurrency, each transaction is reported on Form 8949.

Do I report “HOLD” positions?

Exchanges of cryptocurrency for other cryptocurrency, exchanges for fiat, cryptocurrency in exchange for goods and services are all reportable transactions, falling on Schedule C and Form 8949; if however, you merely buy cryptocurrency and HOLD it for investment purposes, no exchanges, then no, it is not a separate reportable transaction to just buy cryptocurrency.

Does Section 1031 apply to cryptocurrency for cryptocurrency exchanges?

No, Section 1031 is inapplicable to cryptocurrency.

What is an example of a reportable cryptocurrency transaction?

On June 30, John is paid \$50,000 for services rendered in cryptocurrency; John has \$50,000 in income to report most likely on a Schedule C. John later sells that \$50,000 in cryptocurrency on July 30 for \$55,000; John has a reportable gain of \$5,000, reported on Schedule D and most likely Form 8949. This is why knowing your “basis” in the cryptocurrency is so vitally important. Only knowing your basis can you know if you had a reportable gain or loss. Do not forget to add transaction fees charged by the exchanges to your cost basis.

May I take a “Loss” on my cryptocurrency exchanges?

Yes, but they are capital losses and limited to \$3,000 per year, excess rolled over to following tax years.

What if my cryptocurrency generates income (or an increase in wealth), like through Staking?

Yes, Staking rewards may be reportable and taxable.

What About Air-Drops, Hard Forks and Soft Forks?

Air-Drops are generally taxable (for value received) and will usually have a zero basis since they were “dropped into” the crypto account and not purchased or exchanged.

A Hard Fork, like a stock split, is generally not a taxable event, unless you received something of increased value.

Like a Hard Fork, a Soft Fork is generally not a taxable event, unless you received something of increased value.

What About Mining activities?

Cryptocurrency received in exchange for Mining activities is taxable income up to the value of the cryptocurrency received. If your Mining activities are a business of going concern, do not forget to track your business expenses.

Do I need to report foreign cryptocurrency on Schedule B?

The safe bet is, yes; if you had foreign accounts that hold cryptocurrency, then yes, you have ownership or signature authority over a foreign account and question 7, schedule B should be answered in the affirmative.

Do I need to report my cryptocurrency on the FBAR or Form 8938?

There is no clear guidance to date on this question; however, the safe bet and good practice suggests, yes, if you own cryptocurrency on a foreign exchange, at foreign institutions or in foreign accounts, and the dollar amount thresholds are met, you should consider reporting your cryptocurrency on the FBAR and Form 8938, as applicable.

If I have unreported cryptocurrency is there a Tax Amnesty Program?

Currently, no, there are no specific tax amnesty for cryptocurrency, but there are other disclosure mechanisms within the Department of Treasury that may assist you in coming-forward.