



Cryptocurrency? The IRS Wants to Know.

Cryptocurrencies are making the headlines these days, but not just in the news. The IRS has said they will be allocating resources to ensure taxpayers comply with the reporting requirements surrounding cryptocurrencies. The IRS has moved its cryptocurrency question right to the top of your tax return, making it much harder to claim “I didn’t know” if not reporting cryptocurrency activity.

A screenshot of the 2020 U.S. Individual Income Tax Return form (1040). The form includes sections for Filing Status, personal information, and address. A red arrow points to the question: "At any time during 2020, did you receive, sell, send, exchange, or otherwise acquire any financial interest in any virtual currency?" with "Yes" and "No" options.

It is your responsibility to inform our team if the answer to this question should be yes. Just because you mark yes to the question, it does not mean taxes are due on your cryptocurrency holdings. Very similar to stocks, a taxable transaction has not taken place until you sell or exchange your holdings. What makes cryptocurrency different is that it can be used as a form of payment for goods and services. Anytime you issue payment using cryptocurrency, you have effectively sold the asset and have a reportable transaction on your tax return.

Further, if you receive cryptocurrency as payment for goods or services, you must report that income as if you received the money in US Dollars. Buying and holding cryptocurrency does not constitute a taxable event, but it does make the answer to the question **YES**. Most cryptocurrency “wallets” do not issue a traditional 1099 or other documents to report your activity. Thus, the taxpayer must be diligent in tracking these activities for proper reporting and compliance with the laws.

Please reach out to our team if you have any questions regarding cryptocurrency and its impact on your taxes. The IRS is watching, and our team at KROST is ready to assist in keeping you to stay out of harm's way.

Please feel free to contact us if you have any questions or concerns.

CONTACT US

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