



TAXPAYERS REMINDED ABOUT DIGITAL ASSET QUESTION & INCOME REPORTING

From the Journal of Accountancy by Martha Waggoner

The IRS said Tuesday, January 24, that it has expanded the instructions for answering a question on federal tax returns about "digital assets," the agency's new term for "virtual currencies."

The IRS said in [a news release](#) that it also clarified the question to help taxpayers answer it correctly. All taxpayers must answer the question even if they didn't engage in any activities involving digital assets, just as they did for tax year 2021.

The question, which appears at the top of Forms 1040, *U.S. Individual Income Tax Return*; 1040-SR, *U.S. Tax Return for Seniors*; and 1040-NR, *U.S. Nonresident Alien Income Tax Return*, was revised this year to update terminology. It asks: At any time during 2022, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, gift, or otherwise dispose of a digital asset (or a financial interest in a digital asset)?

A digital asset is defined by the IRS as a digital representation of value that is recorded on a cryptographically secured, distributed ledger. Common digital assets include convertible virtual currency and cryptocurrency, stablecoins, and nonfungible tokens (NFTs).

Taxpayers who check the "yes" box must report all income related to their digital asset transactions. For example, the IRS said an investor who held a digital asset as a capital asset and sold, exchanged, or transferred it during 2022 must use [Form 8949, Sales and Other Dispositions of Capital Assets](#), to figure their capital gain or loss on the transaction and then report it on [Schedule D \(Form 1040\), Capital Gains and Losses](#), or [Form 709, United States Gift \(and Generation-Skipping Transfer\) Tax Return](#), in the case of a gift.

If an employee was paid with digital assets, they must report the value of assets received as wages. If they worked as an independent contractor and were paid with digital assets, they must report that income on [Schedule C \(Form 1040\), Profit or Loss From Business \(Sole Proprietorship\)](#). Schedule C is also used by anyone who sold, exchanged, or transferred digital assets to customers in connection with a trade or business.

According to the IRS, taxpayers must check "yes" if they:

- Received digital assets as payment for property or services provided;
- Transferred digital assets for free (without receiving any consideration) as a bona fide gift;
- Received digital assets resulting from a reward or award;
- Received new digital assets resulting from mining, staking, and similar activities;
- Received digital assets resulting from a hard fork (a branching of a cryptocurrency's blockchain that splits a single cryptocurrency into two);
- Disposed of digital assets in exchange for property or services;
- Disposed of a digital asset in exchange or trade for another digital asset;

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- Sold a digital asset; or
- Otherwise disposed of any other financial interest in a digital asset.

A taxpayer who owned digital assets during 2022 usually can check the "no" box as long as the taxpayer did not engage in any transactions involving digital assets during the year. Taxpayers can also check the "no" box if their activities were limited to one or more of the following:

- Holding digital assets in a wallet or account;
- Transferring digital assets from one wallet or account they own or control to another wallet or account they own or control; or
- Purchasing digital assets using U.S. or other real currency, including through electronic platforms such as PayPal and Venmo.

For more information, see page 15 of the [Tax Year 2022 1040 \(and 1040-SR\) Instructions](#). For frequently asked questions (FAQs) and other details, visit the [Digital Assets](#) page on IRS.gov.