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### IRS Warns That Crypto Income And Gains Must Be Reported On Tax Returns



The IRS has issued a reminder that taxpayers must answer a digital asset question on 2023 tax returns, as well as report all digital asset related income when they file their 2023 federal income tax return. The question appears at

the top of [Forms 1040, Individual Income Tax Return](#); [1040-SR, U.S. Tax Return for Seniors](#); and [1040-NR, U.S. Nonresident Alien Income Tax Return](#), and was revised this year to update wording. The question was also added to these additional forms: Forms [1041, U.S. Income Tax Return for Estates and Trusts](#); [1065, U.S. Return of Partnership Income](#); [1120, U.S. Corporation Income Tax Return](#); and [1120S, U.S. Income Tax Return for an S Corporation](#).

Depending on the form, the digital assets question asks this basic question, with appropriate variations tailored for corporate, partnership or estate and trust taxpayers: “At any time during 2023, did you: (a) receive (as a reward, award or payment for property or services); or (b) sell, exchange, or otherwise dispose of a digital asset (or a financial interest in a digital asset)?”

A digital asset is a digital representation of value that is recorded on a cryptographically secured, distributed ledger or any similar technology.

Common digital assets include:

- Convertible virtual currency and cryptocurrency.
- Stablecoins.
- Non-fungible tokens (NFTs).

Everyone must answer the question. Everyone who files Forms 1040, 1040-SR, 1040-NR, 1041, 1065, 1120, 1120 and 1120S must check one box answering either "Yes" or "No" to the digital asset question. The question must be answered by all taxpayers, not just by those who engaged in a transaction involving digital assets in 2023.

When to check “Yes.” Normally, a taxpayer must check the "Yes" box if they:

- Received digital assets as payment for property or services provided;
- 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;
- Sold a digital asset; or
- Otherwise disposed of any other financial interest in a digital asset.

How to report digital asset income. In addition to checking the “Yes” box, taxpayers must report all income related to their digital asset transactions. For example, an investor who held a digital asset as a capital asset and sold, exchanged or transferred it during 2023 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](#). A taxpayer who disposed of any digital asset by gift may be required to file [Form 709, United States Gift \(and Generation-Skipping Transfer\) Tax Return](#).

If an employee was paid with digital assets, they must report the value of assets received as wages. Similarly, 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.

When to check “No.” Normally, a taxpayer who merely owned digital assets during 2023 can check the "No" box as long as they did not engage in any transactions involving digital assets during the year. They 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.

For a set of frequently asked questions (FAQs) and other details, visit the [Digital Assets](#) page on IRS.gov.

*Check out my [website](#).*