



## Robert W. Wood

THE TAX LAWYER

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### IRS Gives Crypto Tax Warning: Don't Forget To Report

The IRS has just issued a reminder to taxpayers that there is a virtual currency question at the top of tax returns you'll be filing for 2021. The seemingly innocuous question is on Form 1040, Form 1040-SR and Form 1040-NR. It asks: "At any time during 2021, did you receive, sell, exchange, or otherwise dispose of any financial interest in any virtual currency?" The IRS says that all taxpayers filing Form 1040, Form 1040-SR or Form 1040-NR **must** check one box answering either "Yes" or "No" to the virtual currency question. The question must be answered by all taxpayers, not just taxpayers who engaged in a transaction involving virtual currency in 2021. You can read the [IRS reminder here](#).

In the tax world, a simple yes or no question can be a surprisingly big deal—if you answer wrong. But can you check "No?" Taxpayers who merely *owned* virtual currency at any time in 2021 can check the "No" box when they have not engaged in any *transactions* involving virtual currency during the year, or their activities were limited to:

- Holding virtual currency in their own wallet or account.
- Transferring virtual currency between their own wallets or accounts.
- Purchasing virtual currency using real currency, including purchases using real currency electronic platforms such as PayPal and Venmo.
- Engaging in a combination of holding, transferring, or purchasing virtual currency as described above.



But an awful lot of taxpayers these days must check “Yes.” The list below covers the most common transactions in virtual currency that require checking the “Yes” box:

- The receipt of virtual currency as payment for goods or services provided;
- The receipt or transfer of virtual currency for free (without providing any consideration) that does not qualify as a bona fide gift;
- The receipt of new virtual currency as a result of mining and staking activities;
- The receipt of virtual currency as a result of a hard fork;
- An exchange of virtual currency for property, goods, or services;

- An exchange/trade of virtual currency for another virtual currency;
- A sale of virtual currency; and
- Any other disposition of a financial interest in virtual currency.

If a taxpayer disposed of any virtual currency that was held as a capital asset through a sale, exchange or transfer, they must check “Yes” and use Form 8949 to figure their [capital gain](#) or loss, and report it on Schedule D (Form 1040). If a taxpayer received any virtual currency as compensation for services, or disposed of any virtual currency that they held for sale to customers in a trade or business, they must report the income as they would report other income of the same type (for example, W-2 wages on Form 1040, 1040-SR, or 1040-NR, line 1, or inventory or services from Schedule C on Schedule 1). For more information, see page 17 of the 2021 [Form 1040 Instructions](#) and visit [IRS.gov](#) for general information on virtual currency and other related resources.

How can a yes or no question be such a big deal? If a taxpayer answers “no” and then is discovered to have engaged in transactions with cryptocurrency during the year, the fact that they explicitly answered no to this new question (under penalties of perjury) could be used against them. So if you did any of the listed things, you check yes, right? Yes. But what if you just have a kind of ‘signature authority’ over crypto owned by your non-computer savvy parents or other relatives? That way, you can help them manage their crypto. If you sell a parent’s crypto on their behalf, at their request and/or for their benefit, should you answer “yes” or “no” to the question? I would think that’s a yes. But either way you decide, should you attach an explanatory statement to the return explaining your relationship to the virtual currency? Probably not, but you must report income gain or loss if you had any. And any trust relationship should be formal and documented. Are your parents reporting it all?

There probably aren't perfect answers to many crypto situations. But what is clear is that answering "no" if the truth is "yes" is a big mistake. Skipping the boxes entirely might not be as bad, but the IRS says you must answer. And skipping it isn't good if the truth is "yes." If the truth is "yes," say so, and remember to disclose and report your income, gains, losses, etc. Maybe that's the point of the question, as a prominent reminder. If this makes you realized that you forgot to report your crypto gains in past years, considering amending to fix it. Don't wait for the IRS to find you, even if you did not get one of those 10,000 IRS crypto warning letters of a few years back. Just remember, the IRS is extremely interested in crypto, and is taking steps to ferret out people who do not report.

The IRS appears to believe that millions of transactions might still be unreported. Taxpayers may think they will not be caught, but the risks are growing, and the best way to avoid penalties is to disclose and report as accurately as you can. IRS Commissioner Chuck Rettig has even moved to increase criminal investigations too. Last year's IRS letters to 10,000 crypto taxpayers was just a start, so even if you did **not** receive one of those [10,000 IRS letters](#), you might want to dust off your past tax returns and consider filing amended ones. Of course, anytime you are [amending your taxes, you should be careful](#).

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