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## IRS Says Bitcoin Is Property, Not Currency, And Forms 1099 Are Required

The IRS has issued a bevy of questions and answers about digital currencies like Bitcoin. The biggest news is that it is property for tax purposes, which means that:

- Wages paid to employees using virtual currency are taxable, must be reported on a [Form W-2](#), and are subject to federal income tax withholding and payroll taxes.
- Payments using virtual currency made to independent contractors are taxable and payers must issue [Form 1099](#).
- Gain or loss from the sale or exchange of virtual currency depends on whether the virtual currency is a capital asset in your hands.
- A payment made using virtual currency is [subject to Form 1099 reporting](#) just like any other payment made in property.

The complete IRS [Notice 2014-21](#) includes these key points:

**Q-1: How is virtual currency treated for tax purposes?**

**A-1:** As property.

**Q-2: Is it currency for determining if a transaction results in foreign currency gain or loss?**

**A-2:** No.



**Q-3: If I receive virtual currency as payment, must I include its fair market value in income?**

**A-3:** Yes, report the fair market value in U.S. dollars on the date you receive the virtual currency.

**Q-4: What is the basis of virtual currency received as payment for goods or services?**

**A-4:** The fair market value in U.S. dollars on receipt.

**Q-5: How do I determine the fair market value of virtual currency?**

**A-5:** If it is listed on an exchange and the exchange rate is established by market supply and demand, convert it into U.S. dollars at the exchange rate.

**Q-6: Do I have gain or loss on an exchange of virtual currency for other property?**

**A-6:** Yes. If the fair market value of property received exceeds your adjusted basis of the virtual currency, you have taxable gain. You have a loss if the fair market value of the property is less than the adjusted basis of the virtual currency.

**Q-7: What type of gain or loss do I have on the sale or exchange of virtual currency?**

**A-7:** It depends on whether the virtual currency is a capital asset in your hands.

**Q-8: If I “mine” virtual currency, do I have income from mining?**

**A-8:** Yes, when you successfully “mine” it, the fair market value is income.

**Q-9: Is an individual who “mines” virtual currency as a trade or business subject to self-employment tax?**

**A-9:** Yes.

**Q-10: Is virtual currency received by an independent contractor for services self-employment income?**

**A-10:** Yes.

**Q-11: Is virtual currency paid by an employer for services wages?**

**A-11:** Yes.

**Q-12: Is a payment made using virtual currency subject to Form 1099 reporting?**

**A-12:** Yes.

**Q-13: If a person in business pays virtual currency worth \$600 or more to an independent contractor for services, is a Form 1099 required?**

**A-13:** Yes.

**Q-14: Are payments in virtual currency subject to backup withholding?**

**A-14:** Yes, just like other payments made in property. Get a taxpayer identification number ([TIN](#)) from the payee.

**Q-15: Are there IRS information reporting requirements for a person who settles payments made in virtual currency on behalf of merchants that accept virtual currency from their customers?**

**A-15:** Yes, if certain requirements are met.

**Q-16: Will taxpayers be subject to penalties for having treated a virtual currency transaction in a manner that is inconsistent with this notice prior to March 25, 2014?**

**A-16:** Yes, you can be penalized, but you can also ask for waivers.

*You can reach me at [Wood@WoodLLP.com](mailto:Wood@WoodLLP.com). This discussion is not intended as legal advice, and cannot be relied upon for any purpose without the services of a qualified professional.*