



# Frequently Asked Questions on Virtual Currency Transactions

In 2014, the IRS issued [Notice 2014-21, 2014-16 I.R.B. 938](#) [PDF](#), explaining that virtual currency is treated as property for Federal income tax purposes and providing examples of how longstanding tax principles applicable to transactions involving property apply to virtual currency. The frequently asked questions (“FAQs”) below expand upon the examples provided in Notice 2014-21 and apply those same longstanding tax principles to additional situations.

Comments on these FAQs may be submitted electronically via email to [Notice.Comments@irs.counsel.treas.gov](mailto:Notice.Comments@irs.counsel.treas.gov) [✉](#). The email should include “FAQs on Virtual Currency” in the subject line. All comments submitted by the public will be available for public inspection and copying in their entirety.

**Note:** Except as otherwise noted, these FAQs apply only to taxpayers who hold virtual currency as a capital asset. For more information on the definition of a capital asset, examples of what is and is not a capital asset, and the tax treatment of property transactions generally, see [Publication 544, Sales and Other Dispositions of Assets](#).

## ⊖ Q1. What is virtual currency?

A1. Virtual currency is a digital representation of value, other than a representation of the U.S. dollar or a foreign currency (“real currency”), that functions as a unit of account, a store of value, and a medium of exchange. Some virtual currencies are convertible, which means that they have an equivalent value in real currency or act as a substitute for real currency. The IRS uses the term “virtual currency” in these FAQs to describe the various types of convertible virtual currency that are used as a medium of exchange, such as digital currency and cryptocurrency. Regardless of the label applied, if a particular asset has the characteristics of virtual currency, it will be treated as virtual currency for Federal income tax purposes.

## References/Related Topics

- [Virtual Currencies](#)
- [IRS Notice 2014-21, IRB 2014-16](#)
- [Rev. Rul. 2019-24](#) [PDF](#)

## ⊖ Q2. How is virtual currency treated for Federal income tax purposes?

A2. Virtual currency is treated as property and general tax principles applicable to property transactions apply to transactions using virtual currency. For more information on the tax treatment of virtual currency, see Notice 2014-21. For more information on the tax treatment of property transactions, see [Publication 544, Sales and Other Dispositions of Assets](#).

## ⊖ Q3. What is cryptocurrency?

A3. Cryptocurrency is a type of virtual currency that uses cryptography to secure transactions that are digitally recorded on a distributed ledger, such as a blockchain. A transaction involving cryptocurrency that is recorded on a distributed ledger is referred to as an “on-chain” transaction; a transaction that is not recorded on the distributed ledger is referred to as an “off-chain” transaction.

## ⊖ Q4. Will I recognize a gain or loss when I sell my virtual currency for real currency?

A4. Yes. When you sell virtual currency, you must recognize any capital gain or loss on the sale, subject to any limitations on the deductibility of capital losses. For more information on capital assets, capital gains, and capital losses, see [Publication 544, Sales and Other Dispositions of Assets](#).

## ⊖ Q5. The 2020 Form 1040 asks whether at any time during 2020, I received, sold, sent, exchanged, or otherwise acquired any financial interest in any virtual currency. During 2020, I purchased virtual currency with real currency and had no other virtual currency transactions during the year. Must I answer yes to the Form 1040 question? (updated March 2, 2021)

A5. No. If your only transactions involving virtual currency during 2020 were purchases of virtual currency with real currency, you are not required to answer yes to the Form 1040 question.

## Q5(a). The 2021 Form 1040 asks whether at any time

**⊖ during 2021, I received, sold, exchanged, or otherwise disposed of any financial interest in any virtual currency. During 2021, I purchased virtual currency with real currency and had no other virtual currency transactions during the year. How do I answer the question on the Form 1040? (added March 10, 2022)**

A5(a). If your only transactions involving virtual currency during 2021 were purchases of virtual currency with real currency, you are not required to answer “yes” to the Form 1040 question, and should, instead, check the “no” box.

**⊖ Q6. How do I determine if my gain or loss is a short-term or long-term capital gain or loss?**

A6. If you held the virtual currency for one year or less before selling or exchanging the virtual currency, then you will have a short-term capital gain or loss. If you held the virtual currency for more than one year before selling or exchanging it, then you will have a long-term capital gain or loss. The period during which you held the virtual currency (known as the “holding period”) begins on the day after you acquired the virtual currency and ends on the day you sell or exchange the virtual currency. For more information on short-term and long-term capital gains and losses, see [Publication 544, Sales and Other Dispositions of Assets](#).

**⊖ Q7. How do I calculate my gain or loss when I sell virtual currency for real currency?**

A7. Your gain or loss will be the difference between your adjusted basis in the virtual currency and the amount you received in exchange for the virtual currency, which you should report on your Federal income tax return in U.S. dollars. For more information on gain or loss from sales or exchanges, see [Publication 544, Sales and Other Dispositions of Assets](#).

**⊖ Q8. How do I determine my basis in virtual currency I purchased with real currency?**

A8. Your basis (also known as your “cost basis”) is the amount you spent to acquire the virtual currency, including fees, commissions and other acquisition costs in U.S. dollars. Your adjusted basis is your basis

increased by certain expenditures and decreased by certain deductions or credits in U.S. dollars. For more information on basis, see [Publication 551, Basis of Assets](#).

**Q9. Do I have income if I provide someone with a service and that person pays me with virtual currency?**

A9. Yes. When you receive property, including virtual currency, in exchange for performing services, whether or not you perform the services as an employee, you recognize ordinary income. For more information on compensation for services, see [Publication 525, Taxable and Nontaxable Income](#).

**Q10. Does virtual currency received by an independent contractor for performing services constitute self-employment income?**

A10. Yes. Generally, self-employment income includes all gross income derived by an individual from any trade or business carried on by the individual as other than an employee. Consequently, the fair market value of virtual currency received for services performed as an independent contractor, measured in U.S. dollars as of the date of receipt, constitutes self-employment income and is subject to the self-employment tax.

**Q11. Does virtual currency paid by an employer as remuneration for services constitute wages for employment tax purposes?**

A11. Yes. Generally, the medium in which remuneration for services is paid is immaterial to the determination of whether the remuneration constitutes wages for employment tax purposes. Consequently, the fair market value of virtual currency paid as wages, measured in U.S. dollars at the date of receipt, is subject to Federal income tax withholding, Federal Insurance Contributions Act (FICA) tax, and Federal Unemployment Tax Act (FUTA) tax and must be reported on Form W-2, Wage and Tax Statement. See [Publication 15 \(Circular E\), Employer's Tax Guide](#) [PDF](#), for information on the withholding, depositing, reporting, and paying of employment taxes.

**Q12. How do I calculate my income if I provide a service**

## and receive payment in virtual currency?

A12. The amount of income you must recognize is the fair market value of the virtual currency, in U.S. dollars, when received. In an on-chain transaction you receive the virtual currency on the date and at the time the transaction is recorded on the distributed ledger.

### ⊖ Q13. How do I determine my basis in virtual currency I receive for services I've provided?

A13. If, as part of an arm's length transaction, you provided someone with services and received virtual currency in exchange, your basis in that virtual currency is the fair market value of the virtual currency, in U.S. dollars, when the virtual currency is received. For more information on basis, see [Publication 551, Basis of Assets](#).

### ⊖ Q14. Will I recognize a gain or loss if I pay someone with virtual currency for providing me with a service?

A14. Yes. If you pay for a service using virtual currency that you hold as a capital asset, then you have exchanged a capital asset for that service and will have a capital gain or loss. For more information on capital gains and capital losses, see [Publication 544, Sales and Other Dispositions of Assets](#).

### ⊖ Q15. How do I calculate my gain or loss when I pay for services using virtual currency?

A15. Your gain or loss is the difference between the fair market value of the services you received and your adjusted basis in the virtual currency exchanged. For more information on gain or loss from sales or exchanges, see [Publication 544, Sales and Other Dispositions of Assets](#).

### ⊖ Q16. Will I recognize a gain or loss if I exchange my virtual currency for other property?

A16. Yes. If you exchange virtual currency held as a capital asset for other property, including for goods or for another virtual currency, you will recognize a capital gain or loss. For more information on capital gains and capital losses, see [Publication 544, Sales and Other Dispositions of Assets](#).

### ➔ **Q17. How do I calculate my gain or loss when I exchange my virtual currency for other property?**

A17. Your gain or loss is the difference between the fair market value of the property you received and your adjusted basis in the virtual currency exchanged. For more information on gain or loss from sales or exchanges, see [Publication 544, Sales and Other Dispositions of Assets](#).

### ➔ **Q18. How do I determine my basis in property I've received in exchange for virtual currency?**

A18. If, as part of an arm's length transaction, you transferred virtual currency to someone and received other property in exchange, your basis in that property is its fair market value at the time of the exchange. For more information on basis, see [Publication 551, Basis of Assets](#).

### ➔ **Q19. Will I recognize a gain or loss if I sell or exchange property (other than U.S. dollars) for virtual currency?**

A19. Yes. If you transfer property held as a capital asset in exchange for virtual currency, you will recognize a capital gain or loss. If you transfer property that is not a capital asset in exchange for virtual currency, you will recognize an ordinary gain or loss. For more information on gains and losses, see [Publication 544, Sales and Other Dispositions of Assets](#).

### ➔ **Q20. How do I calculate my gain or loss when I exchange property for virtual currency?**

A20. Your gain or loss is the difference between the fair market value of the virtual currency when received (in general, when the transaction is recorded on the distributed ledger) and your adjusted basis in the property exchanged. For more information on gain or loss from sales or exchanges, see [Publication 544, Sales and Other Dispositions of Assets](#).

### ➔ **Q21. How do I determine my basis in virtual currency that I have received in exchange for property?**

A21. If, as part of an arm's length transaction, you transferred property to someone and received virtual currency in exchange, your basis in that virtual currency is the fair market value of the virtual currency, in U.S.

dollars, when the virtual currency is received. For more information on basis, see [Publication 551, Basis of Assets](#).

**– Q22. One of my cryptocurrencies went through a hard fork but I did not receive any new cryptocurrency. Do I have income?**

A22. A hard fork occurs when a cryptocurrency undergoes a protocol change resulting in a permanent diversion from the legacy distributed ledger. This may result in the creation of a new cryptocurrency on a new distributed ledger in addition to the legacy cryptocurrency on the legacy distributed ledger. If your cryptocurrency went through a hard fork, but you did not receive any new cryptocurrency, whether through an airdrop (a distribution of cryptocurrency to multiple taxpayers' distributed ledger addresses) or some other kind of transfer, you don't have taxable income.

**– Q23. One of my cryptocurrencies went through a hard fork followed by an airdrop and I received new cryptocurrency. Do I have income?**

A23. If a hard fork is followed by an airdrop and you receive new cryptocurrency, you will have taxable income in the taxable year you receive that cryptocurrency.

**– Q24. How do I calculate my income from cryptocurrency I received following a hard fork?**

A24. When you receive cryptocurrency from an airdrop following a hard fork, you will have ordinary income equal to the fair market value of the new cryptocurrency when it is received, which is when the transaction is recorded on the distributed ledger, provided you have dominion and control over the cryptocurrency so that you can transfer, sell, exchange, or otherwise dispose of the cryptocurrency.

**– Q25. How do I determine my basis in cryptocurrency I received following a hard fork?**

A25. If you receive cryptocurrency from an airdrop following a hard fork, your basis in that cryptocurrency is equal to the amount you included in income on your Federal income tax return. The amount included in income is the fair market value of the cryptocurrency when you received

it. You have received the cryptocurrency when you can transfer, sell, exchange, or otherwise dispose of it, which is generally the date and time the airdrop is recorded on the distributed ledger. See [Rev. Rul. 2019-24](#) [PDF](#). For more information on basis, see [Publication 551, Basis of Assets](#).

**Q26. I received cryptocurrency through a platform for trading cryptocurrency; that is, through a cryptocurrency exchange. How do I determine the cryptocurrency's fair market value at the time of receipt?**

A26. If you receive cryptocurrency in a transaction facilitated by a cryptocurrency exchange, the value of the cryptocurrency is the amount that is recorded by the cryptocurrency exchange for that transaction in U.S. dollars. If the transaction is facilitated by a centralized or decentralized cryptocurrency exchange but is not recorded on a distributed ledger or is otherwise an off-chain transaction, then the fair market value is the amount the cryptocurrency was trading for on the exchange at the date and time the transaction would have been recorded on the ledger if it had been an on-chain transaction.

**Q27. I received cryptocurrency in a peer-to-peer transaction or some other type of transaction that did not involve a cryptocurrency exchange. How do I determine the cryptocurrency's fair market value at the time of receipt?**

A27. If you receive cryptocurrency in a peer-to-peer transaction or some other transaction not facilitated by a cryptocurrency exchange, the fair market value of the cryptocurrency is determined as of the date and time the transaction is recorded on the distributed ledger, or would have been recorded on the ledger if it had been an on-chain transaction. The IRS will accept as evidence of fair market value the value as determined by a cryptocurrency or blockchain explorer that analyzes worldwide indices of a cryptocurrency and calculates the value of the cryptocurrency at an exact date and time. If you do not use an explorer value, you must establish that the value you used is an accurate representation of the cryptocurrency's fair market value.

**Q28. I received cryptocurrency that does not have a**



## **published value in exchange for property or services. How do I determine the cryptocurrency's fair market value?**

A28. When you receive cryptocurrency in exchange for property or services, and that cryptocurrency is not traded on any cryptocurrency exchange and does not have a published value, then the fair market value of the cryptocurrency received is equal to the fair market value of the property or services exchanged for the cryptocurrency when the transaction occurs.

### **– Q29. When does my holding period start for cryptocurrency I receive?**

A29. Your holding period begins the day after it is received. For more information on holding periods, see [Publication 544, Sales and Other Dispositions of Assets](#).

### **– Q30. Do I have income when a soft fork of cryptocurrency I own occurs?**

A30. No. A soft fork occurs when a distributed ledger undergoes a protocol change that does not result in a diversion of the ledger and thus does not result in the creation of a new cryptocurrency. Because soft forks do not result in you receiving new cryptocurrency, you will be in the same position you were in prior to the soft fork, meaning that the soft fork will not result in any income to you.

### **– Q31. I received virtual currency as a bona fide gift. Do I have income?**

A31. No. If you receive virtual currency as a bona fide gift, you will not recognize income until you sell, exchange, or otherwise dispose of that virtual currency. For more information about gifts, see [Publication 559, Survivors, Executors, and Administrators](#).

### **– Q32. How do I determine my basis in virtual currency that I received as a bona fide gift?**

A32. Your basis in virtual currency received as a bona fide gift differs depending on whether you will have a gain or a loss when you sell or dispose of it. For purposes of determining whether you have a gain, your basis is equal to the donor's basis, plus any gift tax the donor paid on the gift. For purposes of determining whether you have a loss, your basis is equal to the lesser of the donor's basis or the fair market value of the virtual currency at the time you received the gift. If you do not have any documentation to substantiate the donor's basis, then your basis is zero. For more information on basis of property received as a gift, see [Publication 551, Basis of Assets](#).

### ➔ **Q33. What is my holding period for virtual currency that I received as a gift?**

A33. Your holding period in virtual currency received as a gift includes the time that the virtual currency was held by the person from whom you received the gift. However, if you do not have documentation substantiating that person's holding period, then your holding period begins the day after you receive the gift. For more information on holding periods, see [Publication 544, Sales and Other Dispositions of Assets](#).

### ➔ **Q34. If I donate virtual currency to a charity, will I have to recognize income, gain, or loss?**

A34. If you donate virtual currency to a charitable organization described in Internal Revenue Code Section 170(c), you will not recognize income, gain, or loss from the donation. For more information on charitable contributions, see [Publication 526, Charitable Contributions](#).

### ➔ **Q35. How do I calculate my charitable contribution deduction when I donate virtual currency?**

A35. Your charitable contribution deduction is generally equal to the fair market value of the virtual currency at the time of the donation if you have held the virtual currency for more than one year. If you have held the virtual currency for one year or less at the time of the donation, your deduction is the lesser of your basis in the virtual currency or the virtual currency's fair market value at the time of the contribution. For more information on charitable contribution deductions, see [Publication 526, Charitable Contributions](#).

### ➔ **Q36. When my charitable organization accepts virtual**

## **currency donations, what are my donor acknowledgment responsibilities? (added December 26, 2019)**

A36. A charitable organization can assist a donor by providing the contemporaneous written acknowledgment that the donor must obtain if claiming a deduction of \$250 or more for the virtual currency donation. See [Publication 1771, Charitable Contributions Substantiation and Disclosure Requirements](#) [PDF](#), for more information.

A charitable organization is generally required to sign the donor's [Form 8283, Noncash Charitable Contributions](#), acknowledging receipt of charitable deduction property if the donor is claiming a deduction of more than \$5,000 and if the donor presents the Form 8283 to the organization for signature to substantiate the tax deduction. The signature of the donee on Form 8283 does not represent concurrence in the appraised value of the contributed property. The signature represents acknowledgement of receipt of the property described in Form 8283 on the date specified and that the donee understands the information reporting requirements imposed by section 6050L on dispositions of the donated property (see discussion of Form 8282 in FAQ 36). See [Form 8283 instructions](#) for more information.

### **Q37. When my charitable organization accepts virtual currency donations, what are my IRS reporting requirements? (added December 26, 2019)**

A37. Charitable organization that receives virtual currency should treat the donation as a noncash contribution. See [Publication 526, Charitable Contributions](#), for more information. Tax-exempt charity responsibilities include the following:

- Charities report non-cash contributions on a Form 990-series annual return and its associated Schedule M, if applicable. Refer to the Form 990 and Schedule M instructions for more information.
- Charities must file [Form 8282, Donee Information Return](#), if they sell, exchange or otherwise dispose of charitable deduction property (or any portion thereof) - such as the sale of virtual currency for real currency as described in FAQ #4 - within three years after the date they originally received the property and give the original donor a copy of the form. See the instructions on [Form 8282](#) for more information.

### **Q38. Will I have to recognize income, gain, or loss if I**

## **own multiple digital wallets, accounts, or addresses capable of holding virtual currency and transfer my virtual currency from one to another?**

A38. No. If you transfer virtual currency from a wallet, address, or account belonging to you, to another wallet, address, or account that also belongs to you, then the transfer is a non-taxable event, even if you receive an information return from an exchange or platform as a result of the transfer.

## **Q39. I own multiple units of one kind of virtual currency, some of which were acquired at different times and have different basis amounts. If I sell, exchange, or otherwise dispose of some units of that virtual currency, can I choose which units are deemed sold, exchanged, or otherwise disposed of?**

A39. Yes. You may choose which units of virtual currency are deemed to be sold, exchanged, or otherwise disposed of if you can specifically identify which unit or units of virtual currency are involved in the transaction and substantiate your basis in those units.

## **Q40. How do I identify a specific unit of virtual currency?**

A40. You may identify a specific unit of virtual currency either by documenting the specific unit's unique digital identifier such as a private key, public key, and address, or by records showing the transaction information for all units of a specific virtual currency, such as Bitcoin, held in a single account, wallet, or address. This information must show (1) the date and time each unit was acquired, (2) your basis and the fair market value of each unit at the time it was acquired, (3) the date and time each unit was sold, exchanged, or otherwise disposed of, and (4) the fair market value of each unit when sold, exchanged, or disposed of, and the amount of money or the value of property received for each unit.

## **Q41. How do I account for a sale, exchange, or other disposition of units of virtual currency if I do not specifically identify the units?**

A41. If you do not identify specific units of virtual currency, the units are deemed to have been sold, exchanged, or otherwise disposed of in chronological order beginning with the earliest unit of the virtual currency you purchased or acquired; that is, on a first in, first out (FIFO) basis.

**– Q42. If I engage in a transaction involving virtual currency but do not receive a payee statement or information return such as a Form W-2 or Form 1099, when must I report my income, gain, or loss on my Federal income tax return?**

A42. You must report income, gain, or loss from all taxable transactions involving virtual currency on your Federal income tax return for the taxable year of the transaction, regardless of the amount or whether you receive a payee statement or information return.

**– Q43. Where do I report my capital gain or loss from virtual currency?**

A43. You must report most sales and other capital transactions and calculate capital gain or loss in accordance with IRS forms and instructions, including on [Form 8949, Sales and Other Dispositions of Capital Assets](#), and then summarize capital gains and deductible capital losses on [Form 1040, Schedule D, Capital Gains and Losses](#).

**– Q44. Where do I report my ordinary income from virtual currency?**

A44. You must report ordinary income from virtual currency on [Form 1040, U.S. Individual Tax Return](#), [Form 1040-SS](#), [Form 1040-NR](#), or [Form 1040, Schedule 1, Additional Income and Adjustments to Income](#) [PDF](#), as applicable.

**– Q45. Where can I find more information about the tax treatment of virtual currency?**

A45. Information on virtual currency is available at [IRS.gov/virtualcurrency](https://www.irs.gov/virtualcurrency). Many questions about the tax treatment of virtual currency can be answered by referring to [Notice 2014-21](#) [PDF](#) and [Rev. Rul. 2019-24](#) [PDF](#).

**⊖ Q46. What records do I need to maintain regarding my transactions in virtual currency?**

A46. The Internal Revenue Code and regulations require taxpayers to maintain records that are sufficient to establish the positions taken on tax returns. You should therefore maintain, for example, records documenting receipts, sales, exchanges, or other dispositions of virtual currency and the fair market value of the virtual currency.

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