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TAS Tax Tip: When to check yes or no for the virtual currency question

Virtual Currency

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Even though the IRS introduced a check box related to virtual currency on Form 1040 individual tax returns a few years ago, taxpayers and tax return preparers may still be confused when this box needs to be checked 'yes' or 'no'. This year's version of the check box question asks taxpayers whether they engaged in any transaction involving virtual currency.

At any time during 2021, did you receive, sell, exchange, or otherwise dispose of any financial interest in any virtual currency?

This question must be answered by all taxpayers, not just taxpayers who engaged in a transaction involving virtual currency. Do not leave the field blank.

The IRS provides some guidance in the Form 1040 instructions (page 17) and frequently asked questions and answers to help. Here's some basic information to help determine which box needs to be selected.

When to check – No:

- If you were not involved (in any way) with virtual currency, including cryptocurrency, in 2021, you should select 'no'.
- If your only transactions involving virtual currency during 2021 were purchases of virtual currency with real currency. For instance, if you only bought virtual currency using U.S. dollars but have done nothing else in 2021 with that new currency, you should select 'no'.
- If your only transactions involving virtual currency involved the holding (HODL) of virtual currency in a wallet or account, or the transfer of virtual currency from one wallet or account you own or control to another that you own or control.

If you received virtual currency as a qualified bona fide gift in 2021 and have not made any other taxable transactions using it in 2021, you should select 'no'.

When to check – Yes:

The sale or other exchange of virtual currencies, or the use of virtual currencies to pay for goods or services, generally counts as a transaction and has tax consequences that could result in tax liability.

With that in mind if you had a transaction in 2021, a transaction involving virtual currency includes, but is not limited to the:

- Exchange of virtual currency for other property, including for another virtual currency.
- Exchange of virtual currency for goods or services.
- Receipt of virtual currency as payment for goods or services provided.
- Receipt or transfer of virtual currency for free (without providing any consideration) that does not qualify as a bona fide gift.
- Receipt of new virtual currency as a result of mining and staking activities.
- Receipt of virtual currency as a result of a hard fork.
- Sale of virtual currency, and/or any other disposition of a financial interest in virtual currency.

Then you should select the 'yes' box.

The above list does not include all possible situations that may be considered transactions, so be sure to review all the related IRS information below to determine what constitutes a transaction.

You can also use the IRS resources below to find information about the reporting of capital gains or losses from virtual currency transactions.

Do I need to file a corrected tax return if I checked the wrong box?

- If you checked 'yes', but it should have been 'no': You do not need to file an amended tax return. The IRS is not seeking information from taxpayers that do not have taxable transactions. So, currently, you do not have to file an amended tax return to correct just the answer to this question.
- If you checked 'no', but it should have been 'yes' and you did not report your 2021 virtual currency transactions or incorrectly calculated your income, gain, or loss, you should file a corrected tax return.
 - If you realize you made a mistake but the due date for filing hasn't passed, file a superseding return with your correct information before the due date for filing.
 - If the due date for filing has passed, then file an amended return.
 - We recommend that you file the Form 1040-X electronically if you filed your original return electronically.
 - If the IRS is asking about reporting of this type of income for a prior year in a letter to you, follow those specific letter instructions and reply to the designated address. For more information about when the

IRS may send this type of letter, see the IRS has begun sending letters to virtual currency owners advising them to pay back taxes, file amended returns; part of agency's larger efforts, IR-2019-132, July 26, 2019 resource and the actual letter copies below.

More information about virtual currencies can be found at the following IRS resources:

- IRS reminds taxpayers they must check a box on Form 1040, 1040-SR or 1040-NR on virtual currency transactions for 2021
- Virtual Currencies
- Frequently Asked Questions on Virtual Currency Transactions
- About Form 1040, U.S. Individual Income Tax Return
- IRS Notice 2014-21, IRB 2014-16
- Rev. Rul. 2019-24
- Virtual Currency Compliance campaign, July 2, 2018
- IRS has begun sending letters to virtual currency owners advising them to pay back taxes, file amended returns; part of agency's larger efforts, IR-2019-132, July 26, 2019
- Letter 6173
- Letter 6174
- Letter 6174-A

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