



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 [✉](#). 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?**

[+](#) **Q2. How is virtual currency treated for Federal income tax purposes?**

[+](#) **Q3. What is cryptocurrency?**

[+](#) **Q4. Will I recognize a gain or loss when I sell my virtual currency for real currency?**

References/Related Topics

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

⊖ 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? (3/2/2021)

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.

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

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

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

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

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

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

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

and receive payment in virtual currency?

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

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

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

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

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

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

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

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

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

⊕ Q22. One of my cryptocurrencies went through a hard fork but I did not receive any new cryptocurrency. Do I

have income?

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

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

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

⊕ 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?

⊕ 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?

⊕ 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?

⊕ Q29. When does my holding period start for cryptocurrency I receive?

- + Q30. Do I have income when a soft fork of cryptocurrency I own occurs?**
- + Q31. I received virtual currency as a bona fide gift. Do I have income?**
- + Q32. How do I determine my basis in virtual currency that I received as a bona fide gift?**
- + Q33. What is my holding period for virtual currency that I received as a gift?**
- + Q34. If I donate virtual currency to a charity, will I have to recognize income, gain, or loss?**
- + Q35. How do I calculate my charitable contribution deduction when I donate virtual currency?**
- + Q36. When my charitable organization accepts virtual currency donations, what are my donor acknowledgment responsibilities? (12/2019)**
- + Q37. When my charitable organization accepts virtual currency donations, what are my IRS reporting requirements? (12/2019)**
- + 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?**

- ⊕ 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?**
- ⊕ Q40. How do I identify a specific unit of virtual currency?**
- ⊕ 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?**
- ⊕ 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?**
- ⊕ Q43. Where do I report my capital gain or loss from virtual currency?**
- ⊕ Q44. Where do I report my ordinary income from virtual currency?**
- ⊕ Q45. Where can I find more information about the tax treatment of virtual currency?**
- ⊕ Q46. What records do I need to maintain regarding my transactions in virtual currency?**

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