



2024



IRS Nationwide
TaxForum

Digital Assets: What Tax Pros Should Know

IRS – Office of Digital Asset Initiative



Digital Assets: What Tax Pros Should Know



Topics

- Digital Assets (DA) at the IRS
- Fundamentals of DA Taxation
- Review Examples of Complex DA Transactions



Learning Objectives

- Identify more complex taxable events involving digital assets.
- Apply tax law to less common DA transactions.
- Calculate income, gains, and losses associated with complex DA transactions.

Digital Assets at the IRS





Meet the Directors



Sulolit “Raj” Mukherjee

*Executive Director,
Compliance & Implementation*



Seth Wilks

*Executive Director,
Strategy & Development*

Digital Assets at the IRS

The Office of Digital Asset Initiative (ODAI) advises and drives success towards the agency's Strategic Plan by focusing on the following areas:



**Create an engaging
taxpayer experience**



**Enhance Compliance
& Enforcement**



**Embrace
Innovation**



**Develop Partnerships
with Internal & External
Stakeholders**



**Manage Data
& Technology**





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Fundamentals of Digital Asset Taxation



Taxable Transactions



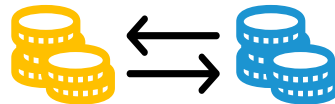
Notice 2014-21, as modified by Notice 2023-34, states that digital assets should be **treated as property for federal tax purposes.**

DA Transactions Impacting Taxable Income

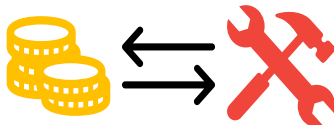
Selling digital assets for US dollars



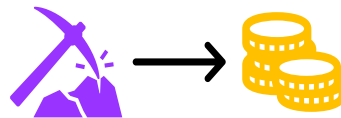
Exchanging different types of digital assets



Sending or receiving digital assets for services



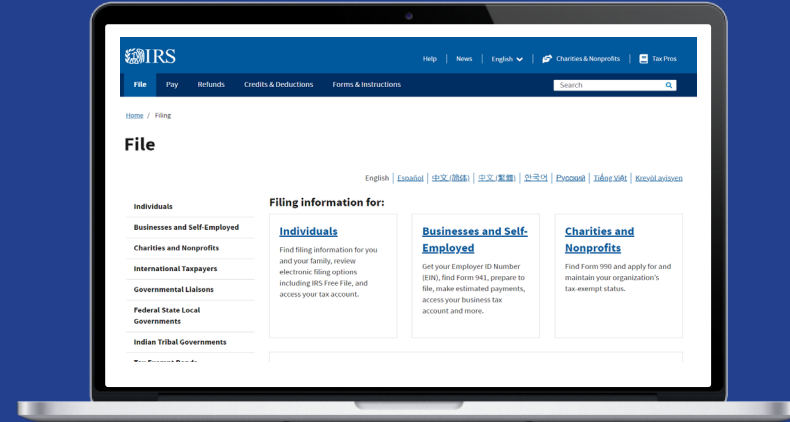
Mining or staking digital assets





Reporting Requirements

The IRS expects individual taxpayers to report on the following forms, regarding digital assets:



1

Form 1040

2

Schedule D
& Form
8949

3

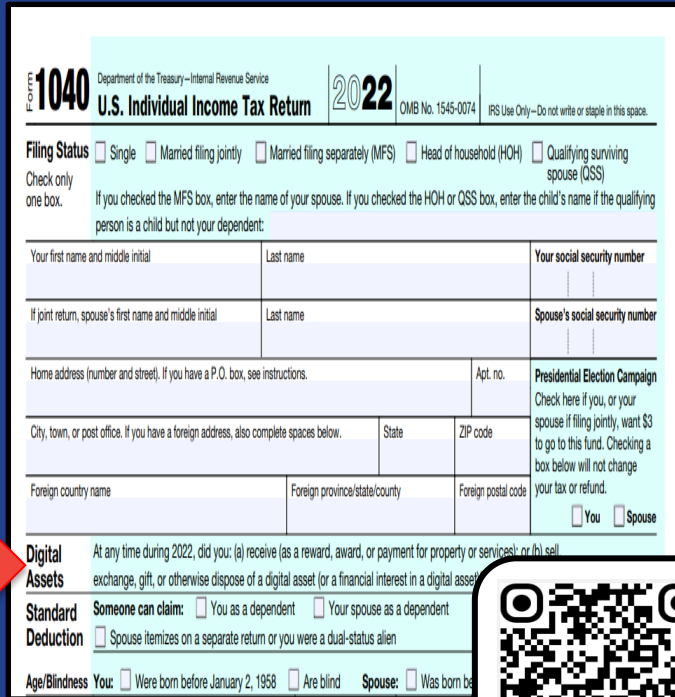
Form 1040
Schedule C

4

Form 1040
Schedule 1



Form 1040 DA Question



Form 1040 Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return 2022 OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

Filing Status ☐ Single ☐ Married filing jointly ☐ Married filing separately (MFS) ☐ Head of household (HOH) ☐ Qualifying surviving spouse (QSS)

Check only one box. If you checked the MFS box, enter the name of your spouse. If you checked the HOH or QSS box, enter the child's name if the qualifying person is a child but not your dependent.

Your first name and middle initial Last name Your social security number

If joint return, spouse's first name and middle initial Last name Spouse's social security number

Home address (number and street). If you have a P.O. box, see instructions. Apt. no. Presidential Election Campaign

City, town, or post office. If you have a foreign address, also complete spaces below. State ZIP code Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund.

Foreign country name Foreign province/state/country Foreign postal code ☐ You ☐ Spouse

Digital Assets At any time during 2022, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, gift, or otherwise dispose of a digital asset (or a financial interest in a digital asset)?

Standard Deduction Someone can claim: ☐ You as a dependent ☐ Your spouse as a dependent ☐ Spouse itemizes on a separate return or you were a dual-status alien

Age/Blindness You: ☐ Were born before January 2, 1958 ☐ Are blind Spouse: ☐ Was born before January 2, 1958 ☐ Is blind



Check "Yes"

Taxpayers must generally check the "Yes" box if they transacted in digital assets during the year.



Check "No"

Taxpayers may check "No" when their DA activity consists **only** of the following:

- Held in a wallet or account.
- Transferred between accounts or addresses controlled by taxpayer.
- Purchased using fiat currency, including through electronic platforms (i.e., PayPal, Venmo).



LEARN MORE



Common Questions

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Q: Do I have to check ‘yes’ if I only transfer DAs between wallets but incur a transaction fee?

A: Yes, if the transaction fee is paid in digital assets

?

Q: Do I have to check ‘yes’ if I dispose of my interests in an Exchange Traded Fund (ETP)?

A: No, because the digital asset would still be classified as a security at that time.

?

Q: Do I have to check ‘yes’ if I am gifting a digital asset?

A: Yes, because you are disposing a financial interest in a digital asset.

?

Q: Are Venmo/Zelle transactions reportable?

A: No, not unless it is an actual digital asset being transacted.



Must-Have Records for Form 1040 & Form 1040-SR Reporting



Calculation Checklist



Timestamp



USD Value at Time of Transaction



Transaction Type



Transaction Fees



Asset Description



Amount Transacted



Adjusted Basis of Assets Sold

Note: Any specific logos or resources displayed or mentioned are not endorsements or investment recommendations.

Calculation Checklist Example

<u>Date</u>	<u>Transaction Type</u>	<u>Unit/Amount</u>	<u>Asset</u>	<u>USD</u>
	 	#		



Calculation Checklist



Timestamp



Transaction Type



Asset Description



Amount Transacted



USD Value at Time of Transaction



Transaction Fees



Adjusted Basis of Assets Sold

Note: Any specific logos or resources displayed or mentioned are not endorsements or investment recommendations.



Sample 1: Complex DA Transactions

Calculation Checklist

Transaction ID	AssetCode	Amount	Description	Time
625349114	USDT	-0.298184	Fee	Mon Sep 20 23:30:04 UTC 2021
625349114	USDT	298.1835	Buy	Mon Sep 20 23:30:04 UTC 2021
625349114	ATOM	-8.901	Sell	Mon Sep 20 23:30:04 UTC 2021

Basis of 8.901 ATOM is \$250 purchased on 2/15/21.



Calculation Checklist

- ✓ Transaction Timestamp
- ✓ Transaction Type
- ✓ Asset Description
- ✓ Amount Transacted
- ✗ USD Value at Time of Transaction
- ✓ Transaction Fees
- ✓ Adjusted Basis of Assets Sold

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Calculation Checklist

Transaction ID	AssetCode	Price Per Unit	Amount	USD Value	Description	Time
625349114	USDT	\$1	-0.298184	(-) \$0.3	Fee	Mon Sep 20 23:30:04 UTC 2021
625349114	USDT	\$1	298.1835	\$298.18	Buy	Mon Sep 20 23:30:04 UTC 2021
625349114	ATOM	\$33.49	-8.901	(-) \$298.18	Sell	Mon Sep 20 23:30:04 UTC 2021

Basis of 8.901 ATOM is \$250 purchased on 2/15/21.



Calculation Checklist

- ✓ Transaction Timestamp
- ✓ Transaction Type
- ✓ Asset Description
- ✓ Amount Transacted
- ✓ USD Value at Time of Transaction
- ✓ Transaction Fees
- ✓ Adjusted Basis of Assets Sold

Note: Any specific logos or resources displayed or mentioned are not endorsements or investment recommendations.

Calculating Capital Gain/Loss

Transaction ID	AssetCode	Price Per Unit	Amount	USD Value	Description	Time
625349114	USDT	\$1	-0.298184	(-) \$0.3	Fee	Mon Sep 20 23:30:04 UTC 2021
625349114	USDT	\$1	298.1835	\$298.18	Buy	Mon Sep 20 23:30:04 UTC 2021
625349114	ATOM	\$33.49	-8.901	(-) \$298.18	Sell	Mon Sep 20 23:30:04 UTC 2021

Basis of 8.901 ATOM is \$250 purchased on 2/15/21.



Transaction Fees

Amount Realized = \$298.18

(-) Transaction Fee = \$0.30

Adj. Amount Realized = \$297.88



Capital Gain/Loss

Adj. Amount Realized = \$297.88

(-) Adjusted Basis = \$250

Capital Gain = \$47.88

Note: Any specific logos or resources displayed or mentioned are not endorsements or investment recommendations.



Sample 2: Complex DA Transactions



Calculation Checklist

<u>pair</u>	<u>type</u>	<u>price</u>	<u>cost</u>	<u>fee</u>	<u>amount</u>	<u>timestamp</u>
ETH/BTC	buy	0.01872	3.93039	0.00629	210	Mon Feb 20 23:30:04 UTC 2021



Calculation Checklist



Timestamp



Transaction Type



Asset Description



Amount Transacted



USD Value at Time of Transaction



Transaction Fees



Adjusted Basis of Assets Sold

Note: Any specific logos or resources displayed or mentioned are not endorsements or investment recommendations.

Decoding the Ledger

<u>pair</u>	<u>type</u>	<u>price</u>	<u>cost</u>	<u>fee</u>	<u>amount</u>	<u>timestamp</u>
ETH/BTC	buy	0.01872	3.93039	0.00629	210	Mon Feb 20 23:30:04 UTC 2021



What Do We Know?

Timestamp	Type	Asset	Units	Price Per Unit	USD Value
Mon Feb 20 23:30:04 UTC 2021					
Mon Feb 20 23:30:04 UTC 2021					

Note: Any specific logos or resources displayed or mentioned are not endorsements or investment recommendations.

Decoding the Ledger

<u>pair</u>	<u>type</u>	<u>price</u>	<u>cost</u>	<u>fee</u>	<u>amount</u>	<u>timestamp</u>
ETH/BTC	buy	0.01872	3.93039	0.00629	210	Mon Feb 20 23:30:04 UTC 2021



What Do We Know?

Timestamp	Type	Asset	Units	Price Per Unit	USD Value
Mon Feb 20 23:30:04 UTC 2021	Sell				
Mon Feb 20 23:30:04 UTC 2021	Buy				

Note: Any specific logos or resources displayed or mentioned are not endorsements or investment recommendations.

Decoding the Ledger

<u>pair</u>	<u>type</u>	<u>price</u>	<u>cost</u>	<u>fee</u>	<u>amount</u>	<u>timestamp</u>
ETH/BTC	buy	0.01872	3.93039	0.00629	210	Mon Feb 20 23:30:04 UTC 2021



What Do We Know?

Timestamp	Type	Asset	Units	Price Per Unit	USD Value
Mon Feb 20 23:30:04 UTC 2021	Sell	BTC			
Mon Feb 20 23:30:04 UTC 2021	Buy	ETH			

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Decoding the Ledger

<u>pair</u>	<u>type</u>	<u>price</u>	<u>cost</u>	<u>fee</u>	<u>amount</u>	<u>timestamp</u>
ETH/BTC	buy	0.01872	3.93039	0.00629	210	Mon Feb 20 23:30:04 UTC 2021

#

What Do We Know?

Timestamp	Type	Asset	Units	Price Per Unit	USD Value
Mon Feb 20 23:30:04 UTC 2021	Sell	BTC	3.93		
Mon Feb 20 23:30:04 UTC 2021	Buy	ETH	210		

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Decoding the Ledger

<u>pair</u>	<u>type</u>	<u>price</u>	<u>cost</u>	<u>fee</u>	<u>amount</u>	<u>timestamp</u>
ETH/BTC	buy	0.01872	3.93039	0.00629	210	Mon Feb 20 23:30:04 UTC 2021



What Do We Know?

Timestamp	Type	Asset	Units	Price Per Unit	USD Value
Mon Feb 20 23:30:04 UTC 2021	Sell	BTC	3.93	\$56,378.00	\$221,633.19
Mon Feb 20 23:30:04 UTC 2021	Buy	ETH	210	0.01872 BTC or \$1,055.40	\$221,633.19

Note: Any specific logos or resources displayed or mentioned are not endorsements or investment recommendations.



Decoding the Ledger

<u>pair</u>	<u>type</u>	<u>price</u>	<u>cost</u>	<u>fee</u>	<u>amount</u>	<u>timestamp</u>
ETH/BTC	buy	0.01872	3.93039	0.00629	210	Mon Feb 20 23:30:04 UTC 2021



What Do We Know?

Timestamp	Type	Asset	Units	Price Per Unit	USD Value
Mon Feb 20 23:30:04 UTC 2021	Sell	BTC	3.9	\$56,378.00	\$221,633.19
Mon Feb 20 23:30:04 UTC 2021	Buy	ETH	210	0.01872 BTC or \$1,055.40	\$221,633.19
Mon Feb 20 23:30:04 UTC 2021	Fee	ETH	0.00629	\$1,055.40	\$6.64

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Decoding the Ledger

<u>pair</u>	<u>type</u>	<u>price</u>	<u>cost</u>	<u>fee</u>	<u>amount</u>	<u>timestamp</u>
ETH/BTC	buy	0.01872	3.93039	0.00629	210	Mon Feb 20 23:30:04 UTC 2021

Basis of 3.93039 BTC is \$225,000 purchased on 1/15/20.



What Do We Know?

Timestamp	Type	Asset	Units	Price Per Unit	USD Value
Mon Feb 20 23:30:04 UTC 2021	Sell	BTC	3.9	\$56,378.00	\$221,633.19
Mon Feb 20 23:30:04 UTC 2021	Buy	ETH	210	0.01872 BTC or \$1,055.40	\$221,633.19
Mon Feb 20 23:30:04 UTC 2021	Fee	ETH	0.00629	\$1,055.40	\$6.64

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Calculating Capital Gain/Loss

Timestamp	Type	Asset	Units	Price Per Unit	USD Value
Mon Feb 20 23:30:04 UTC 2021	Sell	BTC	3.9	\$56,378.00	\$221,633.19
Mon Feb 20 23:30:04 UTC 2021	Buy	ETH	210	0.01872 BTC or \$1,055.40	\$221,633.19
Mon Feb 20 23:30:04 UTC 2021	Fee	ETH	0.00629	\$1,055.40	\$6.64

Basis of 3.93039 BTC is \$225,000 purchased on 1/15/20.



Transaction Fees

Amount Realized = \$221,633.19

(-) Transaction Fee = \$6.64

Adj. Amount Realized = \$221,626.55



Capital Gain/Loss

Adj. Amount Realized = \$221,626.55

(-) Adjusted Basis = \$225,000.00

Capital Loss = \$3,373.45

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What's Next?



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Questions?