

IRS News on the 2020 Form 1040 Check Box on Virtual Currency

Amundsen Davis Cryptocurrency, Blockchain and FinTech Alert
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In 2014 the IRS issued Notice 2014-21 (“Notice”) regarding the application of the Internal Revenue Code to transactions using virtual currency. The IRS advised that virtual currencies which could be “customarily used and accepted as medium of exchange” as a substitution for real currency were “convertible virtual currency.” (The Notice set out Bitcoin as an example of convertible virtual currency). Further, “the sale or exchange of convertible virtual currency, or the use convertible virtual currency to pay for goods and services in a real-world economy transaction, has tax consequences that may result in tax liability.” The Notice provided guidance on the tax consequences of these transactions in a series of “Frequently Asked Questions” (FAQs).

Fast forward to the tax year 2020 IRS Form 1040, which requires the taxpayer to answer “yes” or “no” to this question: At any time during 2020, did you receive, sell, send, exchange, or otherwise acquire any interest in any virtual currency?” On March 2, 2021, the IRS updated FAQ 5 to advise that if the taxpayer purchased virtual currency with real currency and *had no other virtual currency transactions during 2020*, the taxpayer is not required to answer yes to the 2020 Form 1040 question.

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