

About Digital Currency and Scope

Digital currency, or cryptocurrency or virtual currency, is a type of unregulated currency which is issued and usually controlled by its developers and is used and accepted among the members of a specific virtual community. Prominent examples of virtual currency include Bitcoin and Ethereum.

The IRS treats convertible virtual currencies as property and not as currency. Any income from virtual currency or in virtual currency — whether due to selling at a profit or receiving a digital asset for work performed — must be reported to the IRS on a tax return.

Limited Purchase of Virtual Currency Using Cash or Other Traditional Currency Is In Scope for VITA

If the **only** virtual currency transaction during the tax year was the purchase of virtual currency using cash or other standard currency, the tax return is **in scope for VITA**. No documentation is required and the purchase is not part of the tax return.

All Other Virtual Currency Transactions Are Out of Scope for VITA

If the taxpayer answers “Yes” to this question on **Form 1040**:

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)? (See instructions.) <input type="checkbox"/> Yes <input type="checkbox"/> No
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then the tax return is out of scope for the Tax Help Program:

- Payment for goods or services made in virtual currency to a taxpayer who is not considered an employee (and is reported on **Schedule C** of **Form 1040**)
- A capital gain or loss when virtual currency is traded or sold for actual currency or another virtual currency (and is reported on **Schedule D** of **Form 1040**).
- Other income generated from digital currency transactions.

Check appropriate box for each question in each section			
Yes	No	Unsure	
Part III – Income – Last Year, Did You (or Your Spouse) Receive			
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	1. (B) Wages or Salary? (Form W-2) If yes, how many jobs did you have last year? _____
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	2. (A) Tip Income?
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	3. (B) Scholarships? (Forms W-2, 1098-T)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	4. (B) Interest/Dividends from: checking/savings accounts, bonds, CDs, brokerage? (Forms 1099-INT, 1099-DIV)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	5. (B) Refund of state/local income taxes? (Form 1099-G)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	6. (B) Alimony income or separate maintenance payments?
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	7. (A) Self-Employment income? (Form 1099-MISC, 1099-NEC, cash, virtual currency, or other property or services)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	8. (A) Cash/check/virtual currency payments, or other property or services, any work performed not reported on Forms W-2 or 1099?
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	9. (A) Income (or loss) from the sale or exchange of Stocks, Bonds, Virtual Currency or Real Estate (including your home) (Forms 1099-S, 1099-B)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	10. (B) Disability income? (such as payments from insurance, or workers compensation) (Forms 1099-R, W-2)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	11. (A) Retirement income or payments from Pensions, Annuities, and/or IRA? (Form 1099-R)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	12. (B) Unemployment Compensation? (Form 1099G)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	13. (B) Social Security or Railroad Retirement Benefits? (Forms SSA-1099, RRB-1099)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	14. (M) Income (or loss) from Rental Property?
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	15. (B) Other income? (gambling, lottery, prizes, awards, jury duty, virtual currency, Sch K-1, royalties, foreign income, other property or services, etc.) Specify _____

How to Assist the Taxpayer

The Tax Help Program cannot prepare any return containing digital currency transactions or income.

Take special care to examine any **Form 1099-B** presented by a taxpayer for evidence of digital currency transactions, particularly those from Robinhood Crypto or Coinbase. These digital currency transactions are out of scope for VITA.

The Special Tax Services (STS) team will prepare tax returns containing digital currency transactions only under these circumstances:

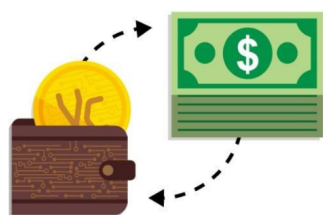
- The sale of digital assets is reported on **Form 1099-B** and
- The basis was reported to the IRS

See your Site Manager to refer a client to Special Tax Services.

For all other taxpayers with digital currency income, refer the client to the handout We Cannot Prepare Your Return [[English](#)] [[Spanish](#)].

Did you know? The IRS intends to introduce **Form 1099-DA** for tax year 2023. This form will be used for transactions involving **Digital Assets**.

Transactions That Could Affect Taxable Income



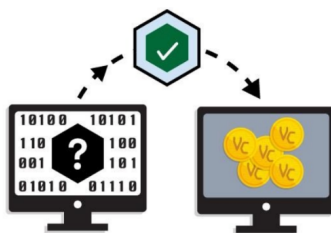
Selling virtual currency for U.S. dollars.



Exchanging one type of virtual currency for another.



Receiving virtual currency for services.

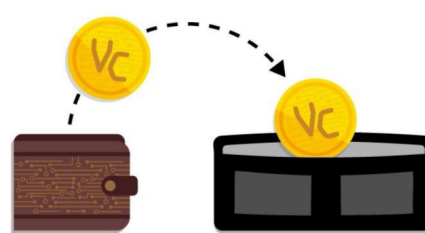


Mining virtual currency.

Transactions That Do Not Affect Taxable Income



Buying virtual currency with dollars and holding on to it.



Sending virtual currency to a different virtual wallet or account with the same owner.

Source: GAO analysis of Internal Revenue Service guidance. | GAO-20-188