



# There is a New Digital Assets Question on 2022 Tax Form 1040

The IRS has updated the question about digital assets on the 2022 Forms 1040 [Individual Income Tax Return], 1040-SR [U.S. Tax Return for Seniors] and 1040-NR [U.S. Nonresident Alien Income Tax Return]. The term "digital assets" has replaced "virtual currency" which was a term used previously. All taxpayers must answer the question regardless of whether they engaged in any transactions involving digital assets. In addition, the IRS has updated and clarified the instructions for answering the digital assets question to help taxpayers answer it correctly.

## What is a digital asset?

According to the IRS, a digital asset is a digital representation of value which is recorded on a cryptographically secured distributed ledger.

Common digital assets include:

- Convertible virtual currency and cryptocurrency
- Stablecoins
- Non-fungible tokens (NFTs)

On Forms 1040, 1040-SR and 1040-NR for 2022 the question reads:

**"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)?"

## Answering the digital assets question

All taxpayers who file a Form 1040, Form 1040-SR or Form 1040-NR must answer the digital assets question by checking either the yes or no box.

According to the IRS, a taxpayer must check the "yes" box if they:

- Received digital assets as payment for property or services provided;
- Transferred digital assets for free (without receiving any consideration) as a bona fide gift;
- Received digital assets resulting from a reward or award;
- Received new digital assets resulting from mining, staking and similar activities;
- Received digital assets resulting from a hard fork (a branching of a cryptocurrency's blockchain that splits a single cryptocurrency into two);
- Disposed of digital assets in exchange for property or services;
- Disposed of a digital asset in exchange or trade for another digital asset;
- Sold a digital asset; or otherwise disposed of any other financial interest in a digital asset.



Taxpayers may check the "no" box if their activities were limited to one or more of the following:



- Holding digital assets in a wallet or account;
- Transferring digital assets from one wallet or account they own or control to another wallet or account they own or control; or
- Purchasing digital assets using U.S. or other real currency, including through electronic platforms such as PayPal and Venmo.

## Reporting digital asset income

In addition to checking the "yes" box, taxpayers who had digital asset transactions in 2022 must report all income related to those transactions on their 2022 Form 1040.

The IRS provided the following examples of reportable digital transactions:

- A taxpayer who held a digital asset as a capital asset and sold, exchanged or transferred that asset during 2022, must use Form 8949, Sales and other Dispositions of Capital Assets, to figure their capital gain or loss on the transaction and then report it on Schedule D (Form 1040), Capital Gains and Losses, or Form 709, United States Gift (and Generation-Skipping Transfer) Tax Return, in the case of gift.
- A taxpayer who received digital assets in return for providing services as an employee must report the value of assets received as wages. Similarly, a taxpayer worked as an independent contractor and were paid with digital assets, they must report that income on Schedule C (Form 1040), Profit or Loss from Business (Sole Proprietorship).