IRM PROCEDURAL UPDATE

DATE: 12/13/2018

NUMBER: sbse-04-1218-1528

SUBJECT: Post Publication Revision to 4.19.3, IMF Automated Underreporter (AUR) Program

AFFECTED IRM(s)/SUBSECTION(s): 4.19.3

CHANGE(s):

IRM 4.19.3.5(10) - new instruction to address virtual currency; renumbered subsequent paragraphs

10. Virtual currency may be used to pay any type of income, for example, it may be used as payment for rent, royalties, other income, etc., or an employer may use it as payment for wages, salaries and compensation. Follow the appropriate analysis procedures, based on the type of document the payer used to report the income.

CAUTION: If the income is partially reported and the TP includes an explanation they reported the fair market value of the virtual currency, as of the date it was received, consider the income reported.

IRM 4.19.3.8.6.1(2) e - new Caution that virtual currency may be reported/partially reported on Schedule D and to allow reporting of fair market value, if this explanation is included with the return

IRM 4.19.3.8.6.1(2) f - new Caution that virtual currency may be reported/partially reported on Form 8949 and to allow reporting of fair market value, if this explanation is included with the return

2. When comparing NEC IRs with entries on any line not specifically identified for NEC, the amount must match within $1 or be CLEARLY IDENTIFIED by payer name, activity or as NEC income:
   a. Form 1040, line 7.
   b. Form 1040A, line 7.
   c. Form 1040EZ, line 1.
   d. Form 1040, line 21.

NOTE: If there is an indication

Any line marked with a # is for Official Use Only
NOTE: #

CAUTION: Virtual currency may be reported or partially reported on Schedule D. This income may be identified by payer name or may be referred to as bitcoin or similar language. If the income is partially reported and the TP includes an explanation they reported the fair market value of the virtual currency, as of the date it was received, consider the income reported.

<table>
<thead>
<tr>
<th>Form /Schedule</th>
<th>TY 2015</th>
<th>TY 2016</th>
<th>TY 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schedule D</td>
<td>Part I, lines 1a, 1b, 2, or 3 column (d) or Part II, lines 8a, 8b, 9 or 10, column (d).</td>
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<tr>
<td>Form 8949</td>
<td>Part I, line 1 column (d) or Part II, line 1, column (d).</td>
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f. Form 8949, see table in e above for line numbers.

CAUTION: Virtual currency may be reported or partially reported on Form 8949. This income may be identified by payer name or may be referred to as bitcoin or similar language. If the income is partially reported and the TP includes an explanation they reported the fair market value of the virtual currency, as of the date it was received, consider the income reported.

g. Schedule E, Part I.
h. Form 2106, Employee Business Expenses, line 7 - Give credit when the NEC IR is related to the occupation (or activity) shown on Form 2106. See (4) below.
i. Form 4797, Sales of Business Property, Parts I, II, or III.
j. Form 6252, Installment Sale Income, line 5 or line 21.
k. Form 3903, Moving Expenses, line 4.
NOTE: The TP may report the sale of timber, coal, easements, right-of-way (ROW), land damages, etc. on the designated lines for Schedule D, Form 8949 or Form 4797. Consider the NEC reported if the sales price matches the IR within $1.

IRM 4.19.3.8.7.1(3) e - new Caution that virtual currency may be reported/partially reported on Schedule D and to allow reporting of fair market value, if this explanation is included with the return

IRM 4.19.3.8.7.1(3) g - new Caution that virtual currency may be reported/partially reported on Form 8949 and to allow reporting of fair market value, if this explanation is included with the return

3. When comparing MERCH IRs with entries on any line not specifically identified for MERCH, the amount must match within $1 or be CLEARLY IDENTIFIED by payer name, activity or as MERCH income:
   a. Form 1040, line 7.
   b. Form 1040A, line 7.
   c. Form 1040EZ, line 1.
   d. Form 1040, line 21.
   e. Schedule D, see table below for line numbers.

   CAUTION: Virtual currency may be reported or partially reported on Schedule D. This income may be identified by payer name or may be referred to as bitcoin or similar language. If the income is partially reported and the TP includes an explanation they reported the fair market value of the virtual currency, as of the date it was received, consider the income reported.

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   f. Schedule E, Part I.
   g. Form 8949, see table in e above for line numbers.

   CAUTION: Virtual currency may be reported or partially reported on Form 8949. This income may be identified by payer name or may be
referred to as bitcoin or similar language. If the income is partially reported and the TP includes an explanation they reported the fair market value of the virtual currency, as of the date it was received, consider the income reported.

h. Form 4797, Sales of Business Property, Parts I, II, or III.

IRM 4.19.3.21.1(4) - new instruction to address virtual currency; renumbered subsequent paragraphs

4. Virtual currency may be used to pay any type of income, for example, it may be used as payment for rent, royalties, other income, etc., or an employer may use it as payment for wages, salaries and compensation. Follow the appropriate response procedures, based on the type of document the payer used to report the income.

CAUTION: If the income is partially reported and the TP includes an explanation they reported the fair market value of the virtual currency, as of the date it was received, consider the income reported.

IRM 4.19.3.21.3.13(3) - new paragraph to explain virtual currency; renumbered subsequent paragraphs

3. Virtual currency, for example, bitcoin, may be used to pay for goods and/or services and may also be held for investment, and may be reported on Form 1099-MISC or Form 1099-K. Virtual currency used to pay for goods or services is treated as income and is generally subject to SE tax. Virtual currency which is held for investment is reportable as a capital asset and the TP may realize ordinary gain or loss on the sale or exchange, similar to stocks, bonds and other investment property. If the TP’s response states:
   a. The underreported NEC/MERCH is income from virtual currency transactions received for goods or services or was held for investment, and the income is reported on the return, for example, the amount is reported on Schedule C or Schedule D, accept the TP’s explanation.

   NOTE: If the TP states they reported the fair market value of the virtual currency, as of the date it was received, accept the income as reported.

   b. The unreported NEC/MERCH is from the sale of virtual currency held for investment, and the income is not reported on the return, advise the TP these are capital assets. Any gain or loss from the sale or trade is generally a capital gain or loss and should be reported on Schedule D.
c. The underreported NEC/MERCH income is payment(s) of virtual currency, **and the income is not reported on the return**, advise the TP these types of payments are taxable and may be subject to SE tax. In general, the fair market value of the virtual currency, as of the date the virtual currency was received, is taxable income.