



Department of the Treasury
Internal Revenue Service
[Operating Division / Program Name]
[Street address]
[City, State ZIP]

Date:
07/16/2019
Taxpayer ID number:

Hotline telephone number:

Tax form:
Form 1040

[Recipient name]
[Address line 1]
[Address line 2]
[Address line 3]

Reporting Virtual Currency Transactions

Dear [Name]:

Why we're writing to you

We have information that you have or had one or more accounts containing virtual currency but may not have properly reported your transactions involving virtual currency, which include cryptocurrency and non-crypto virtual currencies.

What you need to do

After reviewing the information below, if you believe you didn't accurately report your virtual currency transactions on a federal income tax return, you should file amended returns or delinquent returns if you didn't file a return for one or more taxable years. If you do not accurately report your virtual currency transactions, you may be subject to future civil and criminal enforcement activity. For more information, visit www.irs.gov/filing.

When filing amended or delinquent returns, write "Letter 6174-A" at the top of the first page of the return. Mail the original amended or delinquent return to:

Internal Revenue Service
2970 Market Street
Philadelphia, PA 19104

Reporting virtual currency transactions

Virtual currency is considered property for federal income tax purposes. Generally, U.S. taxpayers must report all sales, exchanges, and other dispositions of virtual currency. An exchange of a virtual currency (such as Bitcoin, Ether, etc.) includes the use of the virtual currency to pay for goods, services, or other property, including another virtual currency such as exchanging Bitcoin for Ether. This obligation applies regardless of whether the account is held in the U.S. or abroad. More information can be found on www.irs.gov and in Notice 2014-21, found at www.irs.gov/pub/irs-drop/n-14-21.pdf, which describes how general tax principles for property transactions apply to transactions involving virtual currency.

You must report virtual currency transactions on your return, regardless of whether you received a payee statement for the transaction (such as a Form W-2, Form 1099, etc.).

Common schedules for reporting virtual currency transactions include the following:

Schedule C

If you were an independent contractor and received payment in virtual currency, you must report it in gross income for the amount of the virtual currency's fair market value, measured in U.S. dollars, as of the date and time you received the virtual currency. Gross income derived by an individual from a trade or business, carried on by the individual as other than an employee, is reported on Schedule C. This constitutes self-employment income and is subject to the self-employment tax.

For more information, you can refer to the instructions for Schedule C.

Schedule D

If you sold, exchanged, or disposed of virtual currency (e.g. Bitcoin, Ether), or used it to pay for goods or services, you have engaged in a reportable transaction and may have a tax liability. These transactions may be reportable on Schedule D. On the tax return, report the virtual currency received at its fair market value, measured in U.S. dollars, as of the date and time of the transaction.

You should maintain and review all transaction records, including bank, wallet, and exchange reports and statements to determine your basis, amount received, and other information needed for reporting on Schedule D.

For more information, you can refer to the instructions for Schedule D.

Schedule E

If you received supplemental income in the form of virtual currency, including income from rental real estate, royalties, partnerships, S corporations, estates, trusts, and residual interests in REMICs, you may need to report this on Schedule E. On the tax return, report the virtual currency received at its fair market value, measured in U.S. dollars, as of the date and time of the transaction.

You may also need to file supplemental forms (e.g. Form 8582, Passive Activity Loss Limitations). See the instructions for Schedule E for any other circumstances that may apply.

For more information, you can refer to the instructions for Schedule E.

Additional Resources

- Publication 17, Your Federal Income Tax (For Individuals)
- Instructions for Form 1040, U.S. Individual Income Tax Return
- Instructions for Form 8949, Sales and Other Dispositions of Capital Assets
- Instructions for Form 1041, U.S. Income Tax Return for Estates and Trusts
- Instructions for Form 1120, U.S. Corporation Income Tax Return
- Instructions for Form 1120-S, U.S. Income Tax Return for an S Corporation
- Instructions for Form 1065, U.S. Return of Partnership Income

You can get the forms, instructions, and publications mentioned in this letter by visiting our website at www.irs.gov/forms-pubs or by calling 800-TAX-FORM (800-829-3676).

You do not need to respond to this letter. Note, however, we may send other correspondence about potential enforcement activity in the future.

If you have questions, you can call the hotline telephone number shown at the top of this letter and leave a message. We'll respond to all messages within three business days.

Thank you for your cooperation.

Sincerely,

[Name]

[Title]