

# Tax Implications of Digital Assets

As with almost all financial transactions, there are tax implications – and digital assets are no different. If you are thinking about or already transacting in digital assets, here's the basics of what you need to know to ensure you're meeting your tax obligations:



## Digital Assets Defined

You are transacting in [digital assets \(which may also be referred to as crypto assets\)](#)\* if you have conducted a transaction, such as buy, sell, exchange or transfer of a digital asset. Digital asset is defined as a digital representation of value which is recorded on a cryptographically secured distributed ledger. Common digital assets include:

- Convertible virtual currency or cryptocurrency
- Stablecoins
- Non-fungible tokens, or NFTs

## Common Transactions

Many transactions involving digital assets are generally required to be reported on a tax return. Some of the more common transactions that service members and their families may need to report on a tax return include:

- Selling digital assets for cash
- Exchanging digital assets for other digital assets
- Using digital assets to purchase goods and services
- Receiving digital assets as a payment for services
- Other disposition or transfer of a financial interest in a digital asset

## Recordkeeping

You are required to maintain sufficient records that support what you report on your tax returns. The following are examples of records that can support digital asset activity:

- Records documenting receipts, sales, exchanges, transfers or other dispositions of digital assets
- Records showing the fair market value of the digital assets at the time of the transaction
- Digital wallet records, transaction history and ledgers
- Exchange/kiosk records

## Reporting Obligations

Transactions involving a digital asset are generally required to be reported on a tax return. Any capital gain or loss from the sale, exchange or use of digital assets, or digital assets accepted by you as payment for services must be reported as follows:

- **If you sold, exchanged, transferred or gave a digital asset as a gift** – check the “Yes” box next to the question on digital assets on page 1 of IRS Form [1040](#) or [1040-SR](#). Use IRS Form [8949](#) to calculate your capital gain or loss and report that gain or loss on [Schedule D](#) (IRS Form 1040), or use IRS Form [709](#) if you gave a digital asset as a gift.
- **If you received digital assets as compensation for services** – report the income as you would report other income of the same type; for example, wages for services provided as an employee should be reported on IRS Form [1040](#) or [1040-SR](#), line 1, while nonemployee compensation for services, such as sole proprietorship income, should be reported on [Schedule C](#) and [Schedule 1](#).

*\* Digital assets are not real currency (also known as “fiat currency”) because they are not the coin and paper money of the United States, or a foreign country, and are not digitally issued by a government’s central bank. Instead, digital assets are treated as property for tax purposes.*

## Examples



### Example 1 Selling digital assets for cash

John purchased 1 bitcoin for \$10,000 in cash on March 31, 2021.

John sold that bitcoin for \$25,000 in cash on April 30, 2022.

This sale will result in a long-term capital gain (asset held longer than one year) of \$15,000 (\$25,000 of cash received from the sale less the \$10,000 purchase price) that must be reported on John's 2022 tax return.



### Example 2 Using digital assets to purchase goods and services

John purchased 0.01 bitcoin for \$100 in cash on March 31, 2021.

John used this 0.01 bitcoin to purchase a used lawnmower on April 30, 2022, when the lawnmower was worth \$250 and the 0.01 bitcoin was worth \$250.

The use of the 0.01 bitcoin to purchase the lawnmower results in a taxable exchange of that bitcoin, and John must report a long-term capital gain of \$150 (the fair value of the lawnmower at \$250 less the \$100 bitcoin purchase price) on his 2022 tax return.

## Additional Guidance & Resources

- For federal tax purposes, digital assets are treated as property. Check your state of residence for additional guidance at the state level.
- This fact sheet is not an endorsement of digital assets and is only intended to inform you of your tax obligations if you decide to or are already transacting in digital assets.
- As with all complex financial decisions, you may want to consult with a tax professional, or another qualified [personal financial manager](#) or [counselor](#).
- IRS resource: ["Digital Assets"](#)
- Commodity Futures Trading Commission resource: ["Curious About Crypto? Watch Out for Red Flags"](#)



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