

CURRICULUM:

Tax

LEVEL:

Basic

DESIGNED FOR:

Tax Practitioners and Public Practice

OBJECTIVES:

To provide actionable guidance on cryptocurrency taxation; highlight the importance of regulatory monitoring and proactive recordkeeping to support accurate, ethical and compliant tax reporting

KEY TOPICS:

Cryptocurrency taxation; IRS rules; property classification; capital gains; cost basis; Form 1099-DA; digital assets; DeFi/NFTs; record-keeping; tax software

PREREQUISITES:

None

ADVANCED PREPARATION:

None

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Cryptocurrency Tax Rules and Challenges Explained

BY THUMINH DANG AND RAN LI



Cryptocurrency taxation has become an increasingly important issue for tax practitioners as digital assets integrate into financial activity. The IRS treats

cryptocurrency as property, requiring sales, exchanges, mining, staking, and airdrops to be reported as capital gains or ordinary income. For practitioners, the primary challenge lies in accurately tracking cost basis, holding periods and fair market values when clients transact across multiple wallets, centralized exchanges, decentralized platforms, or emerging instruments such as decentralized finance (DeFi) and non-fungible tokens (NFTs).

Recent IRS initiatives - including the Form 1040 digital asset disclosure, Form 1099-DA reporting and wallet-by-wallet identification - have heightened compliance expectations. Practitioners must consistently apply Internal Revenue Code provisions (§§61, 1012, 1221), leverage specialized software tools and advise clients on strategies such as tax-loss harvesting and long-term holding. This article provides actionable guidance, highlighting the importance of ongoing education, regulatory monitoring and proactive recordkeeping to support accurate, ethical and compliant crypto tax reporting.

UNDERSTANDING DIGITAL ASSETS AND TAX COMPLIANCE

Cryptocurrencies, such as Bitcoin and Ethereum (ETH), are digital currencies that operate on decentralized blockchain networks and are generally not backed, controlled or owned by governments or central banks (Fidelity, 2025). Created, stored and transferred electronically, cryptocurrencies have no physical form and exist as a cryptographically secure representation of value (PwC, 2019). As adoption accelerates globally (see the Central Bank Digital Currency tracker at atlanticcouncil.org/cbdctracker/),

digital currencies are increasingly influencing financial markets, investment behavior and regulatory policy (Atlantic Council, n.d.).

Recent developments underscore the growing relevance of cryptocurrency regulation. At the World Economic Forum Annual Meeting 2025 in Davos-Klosters, Switzerland, professionals discussed the potential impact of a more pro-cryptocurrency policy stance in the United States, which could accelerate regulatory clarity and influence global adoption trends (World Economic Forum, 2025). As cryptocurrencies become integrated into financial activity, accounting and tax professionals must understand both existing compliance requirements and emerging regulatory risks.

For U.S. tax purposes, digital assets are treated as property rather than currency. Public Law 117-58 (2021) defines a digital asset as "any digital representation of value recorded on a cryptographically secured, distributed ledger (blockchain) or similar technology." IRS guidance further described examples of digital assets as "convertible virtual currencies and cryptocurrencies such as Bitcoin, Stablecoins and NFTs" (IRS, n.d.-a). IRS Notice 2014-21 establishes this classification in tax, requiring that buying, selling or receiving crypto be treated as capital gains or losses, or ordinary income or losses, and that income received in cryptocurrency be recognized at fair market value.

Related CPE

Cryptocurrency Transactions: Navigating Federal Tax Rules
[Multiple Dates](#)

Accounting & Auditing for Cryptocurrency
[Multiple Dates](#)

Crypto, Blockchain and Taxes
[Multiple Dates](#)





Notice 2023-34 further explains the modification of Notice 2014-21 a) to clarify that the statement that virtual currency does not have legal tender status in any jurisdiction is no longer accurate as to Bitcoin; and b) to clarify that virtual currency may serve one

or more of the functions of “real currency” through the use of virtual currency to perform “real” currency functions is limited.

Capital gain arises when cryptocurrency is held as an investment and later sold or exchanged at a profit. For example, purchas-

ing one Bitcoin for \$20,000 and later selling it for \$30,000 results in a \$10,000 capital gain. In contrast, cryptocurrency received as compensation, mining rewards or staking income is treated as ordinary income based on its fair market value at the date of

Table 1. IRCs Application of Crypto and Examples

Internal Revenue Code	Key Point	Crypto Application	Examples
§ 61 – Gross Income	All income from any source is taxable, including compensation for services, business income and other gains	Crypto received through mining, staking, airdrops, or as payment is treated as ordinary income at fair market value when received	Mine \$1,000 in crypto → report \$1,000 as income
§ 1221 – Capital Assets	Defines capital assets and determines when gains or losses apply	Crypto is usually treated as a capital asset; gains or losses are recognized when they are sold, exchanged or disposed of	Buy at \$20,000, sell at \$30,000 → \$10,000 capital gain
§ 1012 – Cost Basis	Establishes the original value (cost basis) for tax calculation	Basis = purchase price or fair market value when received; used to calculate capital gain or loss	Buy at \$20,000, sell at \$15,000 → \$5,000 capital loss

Table 2. Summary of Software for Cryptocurrency

Software and Website	Advantages	Limitations	Individual-User Pricing	Business/Pro Pricing
CoinTracker https://www.cointracker.io/	Easy to use; strong exchange integrations; good portfolio tracking	Limited DeFi/NFT support in lower tiers; expensive for high volume	Free (basic); \$59-\$599/year; Ultra up to ~\$1,999/year	Custom pricing for enterprise or Pro plans
Koinly https://koinly.io	Supports many exchanges and blockchains; detailed reports; strong DeFi support	Manual edits are needed for complex transactions; limited features are in the free plan	Free, \$49 (Newbie), \$99 (Hodler), \$199 (Trader)	From ~\$599/year (for accountants/business use)
TokenTax https://tokentax.co	Supports many exchanges and blockchains; detailed reports; strong DeFi support	No free plan; higher cost for advanced features	\$65 (Basic), \$199 (Premium), \$3,499 (VIP), depending on plan	Pricing depends on scale and complexity; a custom quote is required for enterprise plans

receipt. These distinctions are fundamental for accurate reporting and tax planning.

Cryptocurrency transactions commonly occur on online exchanges and taxpayers remain responsible for reporting taxable income, including tracking cost basis, holding period and fair market value, even when the third party does not provide a Form 1099-B or equivalent statement. Acceptable accounting methods, such as first-in-first-out (FIFO), late-in-first-out (LIFO) or highest-in-first-out (HIFO), must be applied consistently.

NAVIGATING CURRENT TAX REGULATIONS OF CRYPTOCURRENCY

The decentralized and pseudonymous nature of cryptocurrency has historically created reporting gaps and opportunities for noncompliance, particularly when transactions span multiple platforms without adequate documentation. In response, the IRS has expanded its enforcement framework through mandatory taxpayer self-disclosure on Form 1040, third-party reporting by exchanges and brokers via Form 1099-DA and retrospective identification methods, such as John Doe summonses¹ directed at exchanges (Gordon Law, 2025).

Under current regulations, cryptocurrency sales and exchanges are subject to capital gains taxation, while income from mining, staking or airdrops is treated as ordinary income with rates depending on holding periods and income brackets. Filing requirements involve reporting dispositions on Form 8949, summarizing results on Schedule D and reporting income on Schedule 1 on Form 1040. Beginning with the 2025 tax year, the IRS introduced a wallet-by-wallet identification requirement, although a temporary safe harbor remains in effect through December 31, 2025 (IRS, 2025).

Accurate recordkeeping is essential to compliance and risk mitigation. Taxpayers may reduce their liability through strategies such as long-term holding and tax-loss harvesting, which uses investment losses to offset capital gains and reduce tax liability. Given the technical complexity and volume of transaction data, using specialized cryptocurrency tax software or consulting with a crypto-knowledgeable CPA is strongly advised.

CURRENT CHALLENGES FOR TAX PROFESSIONALS

CPAs face growing challenges as client participation in digital asset markets expands. Complexity arises when clients use multiple wallets, transact across centralized and decentralized exchanges, or engage in intricate activities such as mining, staking, yield farming, liquidity provision, or airdrops. Each activity may trigger distinct tax consequences, requiring careful classification as ordinary income or capital gain based on timing and intent.

A strong understanding of relevant IRC provisions is essential. Section 61 broadly defines gross income; income from mining rewards, staking income and airdrops is not exempt. Section 1221 governs the classification of digital assets as capital assets, while Section 1012 governs the rules for determining cost basis and calculating gains or losses upon disposition (see Table 1).

To manage transaction complexity, practitioners may increasingly rely on specialized cryptocurrency tax software platforms such as CoinTracker, Koinly and TokenTax (see Table 2). These tools aggregate transaction data across wallets and exchanges, track cost basis and fair market value, apply consistent accounting methods, and generate reproducible reporting outputs. Without such software, manual compliance for active crypto investors would be impractical.

Moreover, IRS enforcement efforts further heighten compliance risk. The digital asset disclosure question on Form 1040 integrates cryptocurrency activity into mainstream tax reporting. Judicial actions, including *United States v. Coinbase, Inc. (2017)*, demonstrate the IRS's willingness to pursue user transaction data through court-approved summonses. Ongoing guidance – including Notice 2014-21, Revenue Ruling 2019-24 and the IRS Virtual Currency FAQs – continues to shape practitioner responsibilities (see Table 3).

AUTHORITATIVE SOURCES AND RECOMMENDATIONS

Given the evolving regulatory environment, CPAs must rely on a clear hierarchy of authoritative sources when advising clients on cryptocurrency taxation. At

the statutory level, the IRC and Treasury Regulations provide the legal foundation, particularly §§ 61 (gross income), 1012 (basis) and 1221 (capital assets). IRS Notices and Revenue Rulings, most notably Notices 2014-21, 2023-34 and Revenue Ruling 2019-24, serve as primary administrative guidance and should guide tax positions involving cryptocurrency transactions.

In contrast, the IRS Virtual Currency Frequently Asked Questions (FAQs) functions as interpretive guidance rather than binding authority (IRS, n.d.-b). While FAQs offer practical insight into common reporting issues, such as valuation, wallet-to-wallet transfers, and mining or staking income, practitioners should exercise caution when relying on them in isolation. Note that documentation and consistency with statutory authority remain critical, particularly in areas where guidance continues to evolve.

Enforcement developments further inform professional judgment. The use of John Doe summonses and judicial decisions such as *United States v. Coinbase, Inc. (2017)* signal heightened IRS scrutiny and reinforce the importance of conservative, well-documented reporting positions. Expanded third-party reporting under Form 1099-DA further reduces the margin of error and increases exposure for inconsistent or incomplete reporting.

From a financial reporting perspective, AICPA has updated its digital assets practice aid to reflect the FASB Accounting Standards Update (ASU) No. 2023-08, which requires certain cryptoassets to be measured at fair value with changes recognized in net income. Although primarily an accounting standard, ASU 2023-08 highlights the growing need for alignment between financial reporting and tax compliance, particularly for entities holding digital assets (*Journal of Accountancy*, 2025).

MANAGING THE EVOLVING DIGITAL ASSET TAX LANDSCAPE

Cryptocurrency taxation remains a complex and rapidly evolving area requiring sustained professional attention. As digital assets become further integrated into mainstream financial activity, continued

Table 3. Key U.S. Regulatory Sources on Cryptocurrency Taxation

Regulatory Sources	Effective Year	Focus/Guidance	Implication for Taxpayers
Form 1040 with Crypto Disclosure Questions	Since 2020	Requires taxpayers to disclose crypto transactions on the front page of the return	Increases IRS monitoring and compliance obligations
<i>United States v. Coinbase, Inc.</i>	(2017)	A legal case is forcing Coinbase to share user data with the IRS	Signals IRS will use legal action to enforce compliance
IRS Notice 2014-21 (Modification of Notice 2014-21, IRS Notice 2023-34)	2014 (2023)	Classifies cryptocurrency as property	Crypto transactions taxed under property rules (capital gains/losses)
Revenue Ruling 2019-24	2019	Addresses hard forks and airdrops	Clarifies when taxpayers must recognize crypto income
IRS Virtual Currency FAQs	Updated continuously	Practical reporting guidance, cost basis and FMV calculation	Help taxpayers apply IRS rules to real-world situations

regulatory developments and enhanced enforcement are expected. Tax professionals must remain informed, apply authoritative guidance consistently, adopt robust documentation, and exercise sound professional judgment to ensure accurate reporting and effective risk management.

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