IRS Releases Virtual Currency Guidance Notice

As the heavy media coverage of virtual currency such as Bitcoin continues, the Internal Revenue Service last week issued a notice providing answers to frequently asked questions on the subject. The FAQs document provides basic information on the U.S. federal tax implications of transactions that use virtual currency. In the notice the IRS explains that virtual currency operates like “real” currency—the coin and paper money of the United States or of any other country that is designated as legal tender, circulates, and is customarily used and accepted as a medium of exchange in the country of issuance—but it does not have legal tender status in any jurisdiction. The notice goes on to note that virtual currency will be treated as property for U.S. federal tax purposes, and that general tax principles that apply to property transactions apply to transactions using virtual currency as well.

The IRS clarified some of the tax consequences:

- Wages paid to employees using virtual currency are taxable to the employee, must be reported by an employer on a Form W-2, and are subject to federal income tax withholding and payroll taxes.
- Payments using virtual currency made to independent contractors and other service providers are taxable, and self-employment tax rules generally apply. Normally, payers must issue Form 1099.
- A payment made using virtual currency is subject to information reporting to the same extent as any other payment made in property.


Senate Committee Chairman Responds to IRS Virtual Currency Guidance

After the IRS released its virtual currency guidance, Sen. Tom Carper (D-DE), chairman of the Homeland Security and Governmental Affairs Committee, issued some comments of his own on the subject:

“The Internal Revenue Service’s guidance today provides clarity for taxpayers who want to ensure that they’re doing the right thing and playing by the rules when utilizing Bitcoin and other digital currencies. In August of last year, I wrote to the Department of the Treasury and other agencies urging federal officials to work together and develop thoughtful guidance related to virtual currencies. I am pleased that the IRS is taking this important step to provide clarity for taxpayers regarding the treatment of digital currencies… The implications for digital currency are wide ranging and demand a whole-government approach. Today, we’ve seen a key agency attempt to put one more piece of the puzzle into place. My staff and I look forward to reviewing the guidance in full and to continuing to work with our Administration and Congressional partners on these issues as they continue to emerge.”

Chairman Carper’s committee held the first Congressional hearing on Bitcoin and digital currencies on November 18, 2013. No further hearings on this topic are currently scheduled at this time.

The Week Ahead: A 21st Century Government

Today, the Senate Homeland Security and Governmental Affairs Committee will hold a hearing to get outside views on “Creating a 21st Century Government.” Panelists will include Robert Shea, principal of the Global Public Sector at Grant Thornton.