New digital asset reporting requirements will be imposed in coming years

The Infrastructure Investment and Jobs Act (IIJA) was signed into law on November 15, 2021. It includes new information reporting requirements that will generally apply to digital asset transactions starting in 2023. Cryptocurrency exchanges will be required to perform intermediary Form 1099 reporting for cryptocurrency transactions.

Existing reporting rules

If you have a stock brokerage account, whenever you sell stock or other securities, you receive a Form 1099-B after the end of the year. Your broker uses the form to report transaction details such as sale proceeds, relevant dates, your tax basis and the character of gains or losses. In addition, if you transfer stock from one broker to another broker, the old broker must furnish a statement with relevant information, such as tax basis, to the new broker.

Digital asset broker reporting

The IIJA expands the definition of brokers who must furnish Forms 1099-B to include businesses that are responsible for regularly providing any service accomplishing transfers of digital assets on behalf of another person ("crypto exchanges"). Thus, any platform on which you can buy and sell cryptocurrency will be required to report digital asset transactions to you and the IRS after the end of each year.

Transfer reporting

Sometimes you may have a transfer transaction that isn't a sale or exchange. For example, if you transfer cryptocurrency from your wallet at one crypto exchange to your wallet at another crypto exchange, the transaction isn't a sale or exchange. For that transfer, as with stock, the old crypto exchange will be required to furnish relevant digital asset information to the new crypto exchange. Additionally, if the transfer is to an account maintained by a party that isn't a crypto exchange (or broker), the IIJA requires the old crypto exchange to file a return with the IRS. It's anticipated that such a return will include generally the same information that's furnished in a broker-to-broker transfer.

Digital asset definition

For the reporting requirements, a “digital asset” is any digital representation of value that’s recorded on a cryptographically secured distributed ledger or similar technology. (The IRS can modify this definition.) As it stands, the definition will capture most cryptocurrencies as well as potentially include some non-fungible tokens (NFTs) that are using blockchain technology for one-of-a-kind assets like digital artwork.

Cash transaction reporting

You may know that when a business receives $10,000 or more in cash in a transaction, it is required to report the transaction, including the identity of the person from whom the cash was received, to the IRS on Form 8300. The IIJA will require businesses to treat digital assets like cash for purposes of this requirement.

When reporting begins

These reporting rules will apply to information reporting that’s due after December 31, 2023. For Form 1099-B reporting, this means that applicable transactions occurring after January 1, 2023, will be reported. Whether the IRS will refine the form for digital assets, or come up with a new form, is not known yet. Form 8300 reporting of cash transactions will presumably follow the same effective dates.

More details

If you use a crypto exchange, and it hasn’t already collected a Form W-9 from you seeking your taxpayer identification number, expect it to do so. The transactions subject to the reporting will include not only selling cryptocurrencies for fiat currencies (like U.S. dollars), but also exchanging cryptocurrencies for other cryptocurrencies. And keep in mind that a reporting intermediary doesn’t always have accurate information, especially with a new type of reporting.