

Yes You Need to Report Crypto on Your Taxes -- and the IRS Has Been Watching Since 2018

Form 1040. John Doe Summons. Chainalysis. FIFO vs HIFO. Staking Income. Tax Loss Harvesting. CLARITY Act 1099-DA. The Complete Answer. -- Q2 2026

Every year, millions of crypto investors ask the same question: do I actually need to report this on my taxes? The answer is yes -- every year, no exceptions -- and the IRS has been actively enforcing crypto tax compliance since 2018 through a combination of exchange data requests, blockchain analytics partnerships, and the most visible reminder in American tax law: a question placed at the very top of Form 1040, the main individual income tax return filed by approximately 150 million Americans annually. The question has appeared on Form 1040 every year since 2019: at any time during the tax year, did you receive, sell, exchange, or otherwise dispose of any financial interest in any virtual currency? This is not a checkbox buried in a supplemental schedule. It is the second question on the first page of the most important tax document in the United States, positioned directly below the taxpayer's basic identifying information. Answering no when the truthful answer is yes is a false statement on a federal tax return -- the same legal exposure as lying to a federal agent. The IRS placed the question there deliberately, in the most visible position available on the return, because the agency determined that widespread non-compliance with crypto tax obligations required the strongest possible reminder that these obligations exist. Understanding why the answer to do I need to report crypto is always yes, exactly which transactions trigger that reporting obligation, and what the IRS can actually see when it reviews a tax return is the complete framework this report provides. The investors who understand it protect the wealth they have built through crypto. The investors who do not face penalties of 20% to 75% of unpaid tax plus interest -- and in cases of willful evasion, criminal prosecution. The cost of getting crypto taxes right is \$50 to \$200 per year for a tax software subscription. The cost of getting them wrong can be orders of magnitude higher.

01 -- THE FORM 1040 QUESTION: WHY THE IRS PUT IT AT THE TOP

The placement of the virtual currency question at the top of Form 1040 is the clearest signal the IRS has ever sent about its enforcement priorities for a specific asset class. The IRS does not typically call attention to specific types of taxable activity on the face of the main tax return. The Form 1040 asks for basic identifying information, filing status, and then directs taxpayers to complete various schedules for different types of income and deductions. The virtual currency question is the exception -- a direct, prominent, mandatory question that every American who files a federal income tax return must answer before they can proceed with the rest of the return.

The IRS added the virtual currency question to Form 1040 in 2019 after the agency observed widespread non-compliance with crypto tax obligations that had technically been in effect since 2014, when IRS Notice 2014-21 established that cryptocurrency is property for federal tax purposes and that every crypto transaction resulting in a gain or loss is a taxable event. The five-year period between Notice 2014-21 and the addition of the Form 1040 question was a period of de facto non-enforcement during which the IRS was building its analytical and legal infrastructure for crypto tax enforcement -- obtaining exchange data through John Doe summonses, contracting with Chainalysis for blockchain analytics, and training its revenue agents in crypto transaction analysis.

The 2019 Form 1040 question also changed the legal exposure of crypto non-reporting. Before 2019, a taxpayer who failed to report crypto gains could argue that they were unaware of the tax obligation -- a defense that carries some weight in penalty calculations even if it does not eliminate the underlying tax liability. After 2019, every taxpayer who files Form 1040 has been directly and explicitly asked about their virtual currency activity. A taxpayer who answers no to the virtual currency question and then fails to report crypto gains cannot credibly claim ignorance -- they affirmatively represented to the IRS that they had no virtual currency activity when they in fact did. This transforms the legal character of the non-reporting from potential negligence to potential false statement, with significantly higher penalty exposure.

The 2024 revision of the Form 1040 question expanded its scope slightly, asking about digital assets rather than virtual currency -- broadening the question to capture NFTs, stablecoins, and other digital assets in addition to cryptocurrencies. The expanded language reflects the IRS's regulatory posture that the tax obligations apply to the full spectrum of blockchain-based assets, not just the cryptocurrencies that most people think of when they hear the word crypto.

FORM 1040 QUESTION: At any time during the tax year, did you receive, sell, exchange, or otherwise dispose of any financial interest in any virtual currency? Placed at the top of Form 1040 since 2019. Answered by approximately 150 million Americans annually. Answering no when the truthful answer is yes is a false statement on a federal tax return. Expanded to digital assets in 2024. No ignorance defense after 2019.

02 -- WHAT TRIGGERS REPORTING: THE COMPLETE LIST OF TAXABLE EVENTS

The most common misconception about crypto tax reporting is that taxes are only owed when you sell crypto for US dollars. This misconception leads to significant under-reporting because the IRS considers many transactions beyond simple fiat sales to be taxable disposal events. Understanding the complete list of what triggers a reporting obligation is essential for accurate compliance.

Selling cryptocurrency for fiat currency is the most obvious taxable event. Selling one Bitcoin for \$70,000 when you purchased it for \$30,000 creates a \$40,000 capital gain that must be reported on Schedule D of your tax return. The gain is short-term -- taxed at ordinary income rates up to 37% -- if you held the Bitcoin for one year or less. The gain is long-term -- taxed at preferential rates of 0%, 15%, or 20% depending on your income -- if you held the Bitcoin for more than one year. The one-year holding threshold is the single most valuable tax planning lever available to crypto investors: an asset held for 366 days rather than 365 days can reduce the tax rate on its gains from up to 37% to as low as

0% for lower-income taxpayers.

Trading one cryptocurrency for another cryptocurrency is a taxable event that surprises many investors. When you exchange Ethereum for Solana on Coinbase or any other exchange, the IRS treats the transaction as if you sold your Ethereum for its fair market value in US dollars at the moment of the exchange and then purchased the Solana at that same dollar value. If your Ethereum had appreciated since you purchased it, you have a taxable gain on the exchange even though you never received any dollars. This treatment applies to every crypto-to-crypto trade -- centralized exchange, decentralized exchange, or direct peer-to-peer swap.

Using cryptocurrency to purchase goods or services is a taxable event. If you use Bitcoin worth \$5,000 to pay for a vacation, and your cost basis in that Bitcoin was \$2,000, you have a \$3,000 taxable capital gain on the purchase transaction. The merchant who accepts the Bitcoin reports the transaction at its dollar value. You report the capital gain. Both sides have tax obligations.

Receiving cryptocurrency as income creates ordinary income equal to the fair market value of the crypto received at the time of receipt. This includes staking rewards -- the IRS confirmed in Revenue Ruling 2023-14 that staking rewards are includible in gross income at their fair market value at the time of receipt. Mining rewards, referral bonuses, airdrops received in exchange for services, and crypto received as employment compensation are all ordinary income in the year received. The cost basis of the received crypto is the fair market value at the time of receipt -- establishing the starting point for any subsequent capital gain calculation when you eventually sell.

Non-taxable events that do not trigger any reporting obligation include: buying crypto with fiat dollars -- the purchase itself is not a taxable event, transferring crypto between wallets you own -- moving Bitcoin from Coinbase to your Ledger hardware wallet is not a taxable event, donating crypto to a qualified charity -- which actually generates a deduction equal to the fair market value of the donated crypto, and holding crypto without any transaction -- simply owning Bitcoin creates no tax obligation until you dispose of it.

03 -- WHAT THE IRS CAN ACTUALLY SEE: THE ENFORCEMENT INFRASTRUCTURE

The era when crypto transactions were effectively invisible to the IRS ended in 2018 when Coinbase complied with a John Doe summons requiring it to provide transaction records for approximately 13,000 accounts. Since then, the IRS's crypto transaction visibility has expanded substantially through a combination of legal enforcement actions against exchanges, blockchain analytics contracts, and the Infrastructure Investment and Jobs Act reporting requirements that took effect in 2023.

The John Doe summons is the legal mechanism the IRS uses to obtain records from exchanges without knowing the specific identities of the taxpayers involved -- the summons requires the exchange to produce records for all accounts meeting certain transaction criteria, from which the IRS then identifies specific taxpayers for audit. Since the Coinbase John Doe summons in 2018, the IRS has issued similar summonses to Kraken, Poloniex, Circle, and other exchanges -- creating a comprehensive database of crypto transaction records that covers a significant percentage of US crypto users.

The IRS's contracts with Chainalysis -- the blockchain analytics company that traces cryptocurrency transactions across public blockchain networks -- give the agency the ability to follow transactions from exchange wallets to self-custody wallets and between wallets on the same blockchain. The IRS does not need exchange records to identify a taxpayer who received a large Bitcoin transfer into a self-custody wallet -- Chainalysis can trace the transaction chain from a known exchange wallet through multiple hops to identify the beneficial owner of the receiving wallet.

The Infrastructure Investment and Jobs Act of 2021 extended broker reporting requirements to crypto exchanges, requiring Coinbase, Kraken, Binance US, and every other regulated exchange to issue 1099 forms to customers and report transaction data to the IRS beginning with the 2023 tax year. The CLARITY Act -- currently advancing through the Senate -- includes a 1099-DA digital asset reporting framework that will require digital asset brokers to report customer transaction data to the IRS on a standardized basis beginning with transactions in calendar year 2027, further expanding the IRS's transaction visibility.

IRS ENFORCEMENT INFRASTRUCTURE: John Doe summonses to Coinbase 2018, Kraken, Poloniex, Circle, and others. Chainalysis blockchain analytics contracts allowing transaction tracing across public blockchains. 1099 reporting from exchanges required since 2023. CLARITY Act 1099-DA reporting from 2027. The IRS can see your transactions on public blockchains even without exchange records. The era of crypto tax invisibility ended in 2018.

04 -- COST BASIS AND HOW TO MINIMIZE YOUR TAX BILL LEGALLY

Cost basis is the price you paid for a crypto asset plus any fees associated with the purchase. When you sell, trade, or otherwise dispose of a crypto asset, your taxable gain or loss is the difference between your cost basis and the disposal price. Managing cost basis is the primary lever through which investors can legally minimize their crypto tax liability -- and the choice of cost basis accounting method can make a significant difference in the tax owed in any given year.

First In First Out -- FIFO -- is the default cost basis method if you do not specify otherwise. FIFO assumes you are selling the oldest units you purchased first. In a market where prices have generally risen over time, FIFO produces the largest taxable gains because it assigns the lowest cost basis -- from the earliest, cheapest purchases -- to the units being sold. FIFO is simple and requires no special record-keeping decisions at the time of each sale, which is why it is the default -- but it is rarely the optimal method for minimizing current-year taxes.

Highest In First Out -- HIFO -- assumes you are selling the highest-cost units first, regardless of when they were purchased. HIFO minimizes your taxable gains in any given year by assigning the highest available cost basis to each disposal, reducing the gain that must be recognized. The IRS permits HIFO as long as you maintain adequate records identifying which specific units are being disposed of at the time of each transaction. Crypto tax software -- Koinly, CoinTracker, TaxBit -- implements HIFO automatically, tracking each purchase lot separately and selecting the optimal lot for each disposal.

Tax loss harvesting is the strategy of selling crypto assets that have declined below your cost basis to realize capital losses that can offset capital gains from other transactions. A \$10,000 capital loss from selling a declining altcoin can offset \$10,000 in capital gains from selling Bitcoin, reducing your tax

liability by up to \$3,700 if you are in the 37% combined tax bracket. Crypto assets are currently not subject to the wash sale rule that prevents stock investors from repurchasing the same security within 30 days of selling it at a loss -- meaning you can sell Bitcoin at a loss to harvest the tax deduction and immediately repurchase Bitcoin at the same price without any waiting period. The CLARITY Act includes a provision that would apply the wash sale rule to digital assets beginning after its enactment, potentially closing this window.

05 -- STAKING REWARDS AND THE JARRETT CASE: WHAT THE IRS SAYS

The tax treatment of staking rewards is the most contested area of crypto tax law -- and the IRS has now issued formal guidance confirming its position even as a legal challenge works through the courts. Understanding where the law stands and what position to take on your tax return is essential for the growing population of crypto investors who earn staking yields on Ethereum, Solana, Cardano, and other proof-of-stake assets.

Joshua and Jessica Jarrett filed a lawsuit against the IRS in 2021 seeking a refund of taxes paid on Tezos staking rewards they received in 2019. The Jarretts argued that newly created cryptocurrency received as staking rewards should be treated like other newly created property -- comparable to crops harvested by a farmer or books written by an author -- and should not be taxable as income until the property is sold. The IRS offered a full refund rather than litigate the case to a ruling, but the Jarretts rejected the refund and continued the lawsuit seeking a definitive court decision that would apply beyond their specific case. The litigation has proceeded without producing the definitive precedent the crypto community was hoping for.

The IRS issued Revenue Ruling 2023-14 confirming its position that staking rewards are includible in gross income at their fair market value at the time of receipt -- meaning staking rewards are ordinary income in the year received, not capital gains. This is the position that every major crypto tax software platform implements by default, and it is the position that the overwhelming majority of crypto tax professionals recommend following until a court definitively rules otherwise. For investors who earn meaningful staking rewards on Ethereum, Solana, or Cardano, this means tracking the fair market value of each reward at the time it is received -- the specific information that crypto tax software platforms pull automatically from supported networks.

06 -- THE TOOLS: HOW TO ACTUALLY DO THIS WITHOUT LOSING YOUR MIND

The practical challenge of crypto tax compliance is not the conceptual difficulty of understanding which transactions are taxable -- this report has covered that completely. The practical challenge is the record-keeping: tracking every transaction across multiple exchanges, multiple wallets, multiple blockchains, and multiple tax years, calculating the cost basis of each disposal, and producing the IRS-required Form 8949 that lists every taxable transaction with its date, proceeds, cost basis, and gain or loss.

A crypto investor who has made 50 trades per year across three exchanges for four years has 200 individual taxable transactions to report on Form 8949. Calculating the cost basis of each one manually

-- applying FIFO or HIFO across multiple purchase lots, accounting for wash sales, adjusting for exchange fees, and converting all values to US dollars at the transaction-date exchange rate -- is a multi-day project that is both error-prone and time-consuming. Crypto tax software eliminates this problem entirely.

Koinly, CoinTracker, and TaxBit are the three most widely used crypto tax software platforms. All three connect directly to the major exchanges -- Coinbase, Kraken, Binance, and dozens of others -- and to major blockchain networks -- Ethereum, Solana, Bitcoin, Cardano -- through API integrations that automatically import your complete transaction history. The software calculates your cost basis using your chosen method -- FIFO, HIFO, or specific identification -- applies the correct tax treatment to each transaction type, identifies tax loss harvesting opportunities, and generates the IRS-required Form 8949 and Schedule D that you or your tax preparer can attach to your return.

The annual subscription cost for crypto tax software ranges from approximately \$49 to \$199 depending on the platform and the number of transactions in your history. For investors with complex portfolios -- multiple exchanges, DeFi transactions, staking rewards, NFT sales -- a consultation with a CPA who specializes in crypto taxation is an additional investment that pays for itself many times over through optimized cost basis methods, identified deductions, and peace of mind that the return is defensible in the event of an IRS inquiry. The combination of crypto tax software and a crypto-specialized CPA is the complete solution for investors who want full compliance with the minimum tax liability the law allows.

07 -- CONCLUSION: THE COST OF IGNORANCE IS ALWAYS HIGHER THAN THE COST OF COMPLIANCE

The answer to do I need to report crypto on my taxes is yes -- for every year you sold, traded, spent, or received crypto as income. The IRS has been asking the question directly on Form 1040 since 2019. The agency has been building the enforcement infrastructure -- John Doe summonses, Chainalysis contracts, exchange 1099 reporting, and the forthcoming CLARITY Act 1099-DA framework -- to verify the answers it receives. The blockchain is a permanent, public record of every transaction you have ever executed with crypto that you hold in a self-custody wallet. The exchanges are required to report your transaction history to the IRS. The era when crypto tax non-compliance was practically invisible ended in 2018.

The investors who take crypto tax compliance seriously are the investors who protect the wealth they have built. The civil penalty for negligent underpayment of tax is 20% of the underpaid amount. The civil penalty for substantial underpayment is 20%. The civil penalty for fraud is 75%. Interest accrues from the original due date of the return at the federal short-term rate plus 3 percentage points. A \$50,000 capital gain that was not reported for three years, with 20% negligence penalty and accrued interest, generates a tax bill of \$15,000 to \$25,000 in tax plus \$3,000 to \$5,000 in penalties and interest -- far more than the \$7,500 to \$10,000 in long-term capital gains tax that would have been owed if reported correctly in the year of the sale.

The practical action items from this report are four: sign up for a crypto tax software platform -- Koinly, CoinTracker, or TaxBit -- and connect all your exchanges and wallets. Download your complete transaction history and review it for the current and prior tax years. If your situation is complex -- DeFi

transactions, staking rewards across multiple networks, NFT sales, crypto received as income -- consult a CPA who specializes in crypto taxation. File accurate returns that reflect all taxable events. Proverbs 11:3 says the integrity of the upright guides them. In crypto taxes as in everything else, doing the right thing is both the ethical choice and the strategically sound one. The cost of ignorance is always higher than the cost of compliance.

Yes you must report crypto every year. Form 1040 asks directly since 2019. IRS has exchange data via John Doe summonses since 2018. Chainalysis traces on-chain transactions. Taxable events: selling, trading, spending, receiving as income. Not taxable: buying, transferring between own wallets, holding. FIFO is default, HIFO minimizes gains. Staking rewards are ordinary income per Revenue Ruling 2023-14. Tax software: Koinly CoinTracker TaxBit. CLARITY Act adds 1099-DA from 2027. The cost of ignorance is always higher than compliance.

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