What are the tax implications of cryptocurrency transactions?

If your small business accepts, uses or invests in Bitcoin, Ethereum or other forms of cryptocurrency, accurate reporting and detailed records are critical for federal tax purposes. The IRS continues to scrutinize digital-asset transactions. Today, business tax returns include a question about digital assets, and brokers are now required to report certain transactions to taxpayers and the IRS on Form 1099-DA. Here’s what you need to know to help you comply with the current tax rules.

The basics

Unlike cash or credit cards, cryptocurrency still isn’t widely accepted by small businesses for routine transactions. However, some businesses may receive it from customers, use it to make purchases, pay workers with it or hold it as an investment.

Cryptocurrencies can be valued in U.S. dollars and digitally traded between users. They may also be purchased or exchanged through online platforms and stored in digital wallets. The IRS uses the broader term “digital assets,” which includes cryptocurrency, stablecoins (a type of cryptocurrency designed to maintain a consistent value) and nonfungible tokens.

Tax reporting

Buying cryptocurrency with U.S. dollars and holding it generally doesn't produce taxable income. However, selling it, exchanging it for another digital asset, using it to make a purchase or receiving it as payment for goods or services sold generally creates a reportable transaction.

For federal tax purposes, the IRS treats cryptocurrency as *property*, not currency. As a result, businesses that accept cryptocurrency for goods or services must report gross income based on its fair market value (FMV) when received, measured in U.S. dollars. That amount generally becomes the business's tax basis in the cryptocurrency.

When the business later sells, exchanges or spends the cryptocurrency, it generally recognizes a separate gain or loss for tax purposes. The gain or loss is based on the difference between the asset's value when disposed of and its adjusted basis. (Adjustments might include additional acquisition costs or transaction fees, certain blockchain events that affect ownership, and other tax adjustments required under IRS rules.)

Here's an overview of the tax treatment of some other common business cryptocurrency transactions:

Purchases. From the buyer's perspective, a purchase made using cryptocurrency may result in a taxable gain if the FMV of the property or services received exceeds the buyer's adjusted basis in the cryptocurrency. Conversely, a tax loss may result if the value received is less than the adjusted basis. In other words, paying a business expense with cryptocurrency can trigger tax consequences beyond the ones typically associated with a purchase (such as a deduction for the business expense).

Employee wages. For federal tax purposes, wages paid using cryptocurrency are taxable to employees and generally must be reported by employers on Form W-2. They're subject to federal income tax withholding and payroll taxes based on their FMV on the payment date. Applicable federal and state wage-payment laws must also be considered.

Payments to contractors. Cryptocurrency payments to independent contractors and other service providers are also taxable. The usual self-employment tax and information-reporting rules apply, and the payer may need to issue Form 1099-NEC.

In addition, a business may have a taxable gain or loss from the appreciation or decline in the cryptocurrency's FMV during the time it was held before it was paid to the employee or independent contractor. Assuming the payer isn't in the trade or business of buying and selling virtual currencies, the gain and loss will be a capital gain or capital loss (short-term or long-term, depending on how long it was held).

Expanded information reporting

A digital-asset question now appears on federal returns including Forms 1065, 1120 and 1120-S. Businesses must answer it and report applicable transactions even if they don't receive an information return for a transaction.

Beginning with transactions in 2025, certain custodial brokers must report gross proceeds from digital-asset sales and exchanges on Form 1099-DA. Starting in 2026, they must also report the basis for certain covered digital assets. However, basis generally won't be reported for assets acquired before 2026 or transferred into the broker's account. So, a Form 1099-DA doesn't eliminate the need to maintain your own records.

The One Big Beautiful Bill Act didn't change the basic tax treatment of digital assets. Its changes to Form 1099-K apply to third-party payment networks and don't replace the separate Form 1099-DA rules.

Under the Infrastructure Investment and Jobs Act of 2021, businesses will eventually be required to report certain digital-asset receipts exceeding $10,000 on Form 8300. However, until the IRS issues regulations to implement the change, businesses aren't required to file Form 8300 solely because they receive more than $10,000 in digital assets.

As a result of the expanded reporting requirements, the IRS now receives more third-party information about digital-asset transactions, making discrepancies easier to identify. Businesses that engage in crypto transactions should maintain records showing the date, number of units, dollar value, tax basis, transaction fees and business purpose of each transaction. Transfers between wallets should also be documented so they aren't mistaken for taxable transactions.

Review your records

As year end approaches, review your 2026 digital-asset transactions and reconcile your records with statements from brokers and payment processors. Also keep in mind that Congress is considering bills that would change selected digital-asset tax rules. We can help you stay on top of any new developments. Contact us for assistance evaluating your transactions and meeting the current reporting requirements.