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TaxNewsFlash

United States

No. 2019-493
October 9, 2019

Rev. Rul. 2019-24: Tax treatment of transactions involving cryptocurrency

The IRS today released an advance version of Rev. Rul. 2019-24 concerning the tax treatment of certain virtual currency transactions—or "cryptocurrency."

Rev. Rul. 2019-24 [PDF 74 KB] addresses two issues involving virtual currency:

- **Does a taxpayer realize gross income as a result of a "hard fork" of a cryptocurrency the taxpayer owns if the taxpayer does not receive units of a new cryptocurrency?** The revenue ruling explains that a hard fork occurs when a cryptocurrency on a distributed ledger undergoes a protocol change resulting in a permanent diversion from the legacy or existing distributed ledger. A hard fork may result in the creation of a new cryptocurrency on a new distributed ledger in addition to the legacy cryptocurrency on the legacy distributed ledger. Following a hard fork, transactions involving the new cryptocurrency are recorded on the new distributed ledger and transactions involving the legacy cryptocurrency continue to be recorded on the legacy distributed ledger. The revenue ruling concludes that a taxpayer does not have gross income under section 61 as a result of a hard fork of a cryptocurrency the taxpayer owns if the taxpayer does not receive units of a new cryptocurrency.

- **Does a taxpayer realize gross income as a result of an "airdrop" of a new cryptocurrency following a hard fork if the taxpayer receives units of new cryptocurrency**? An airdrop is a means of distributing units of a cryptocurrency to the distributed ledger addresses of multiple taxpayers. The revenue ruling concludes that a taxpayer has gross income, ordinary in character, under section 61 as a result of an airdrop of a new cryptocurrency following a hard fork if the taxpayer receives units of new cryptocurrency.

The IRS also provided an updated set of **"frequently asked questions" (FAQs)** to address virtual currency transactions for taxpayers who hold virtual currency as a capital asset.

A related IRS release—**IR-2019-167**—explains that the IRS is aware that some taxpayers with virtual currency transactions may have failed to report income and pay the resulting tax or did not report their transactions properly, and that the IRS is actively addressing potential non-compliance in this area through a variety of efforts, ranging from taxpayer education to audits to criminal investigations. For instance, the IRS stated began sending educational letters to more than 10,000 taxpayers who may have reported transactions involving virtual currency incorrectly or not at all.

Direct comments, including requests for subscriptions, to Washington National Tax. For more information, contact KPMG's Federal Tax Legislative and Regulatory Services Group at + 1 202.533.4366, 1801 K Street NW, Washington, DC 20006-1301.