



## IRS Alerts Taxpayers They Must Answer a New Question on Tax Forms or Face Consequences

### Description

The Internal Revenue Service ([IRS](#)) issued an alert to taxpayers on Tuesday, reminding them that they must report all digital asset-related income and answer a new digital asset question on their 2022 federal income tax return or face consequences such as delayed refunds or even penalties.

The IRS said in a [Jan. 24 release](#) that a key change on 1040 forms this year is that the agency has replaced the term “virtual currency” with “digital assets,” in addition to some other modifications to the wording.

The “Yes” or “No” question, which was expanded and revised this year to update terminology, reads as follows:

“At any time during 2022, did you: (a) receive (as a reward, award or payment for property or services); or (b) sell, exchange, gift or otherwise dispose of a digital asset (or a financial interest in a digital asset)?”

The question appears at the top of tax forms 1040, Individual Income Tax Return; 1040-SR, U.S. Tax Return for Seniors; and 1040-NR, U.S. Nonresident Alien Income Tax Return.

“All taxpayers must answer the question regardless of whether they engaged in any transactions involving digital assets,” the agency cautioned.

It is a legal requirement to accurately report all income, including income from digital assets, on federal income tax returns. Failure to do so could result in non-compliance with tax laws and possible penalties.

The IRS [has provided](#) a detailed explanation of what constitutes a digital asset, which includes such things as stablecoins, non-fungible tokens (NFTs), and cryptocurrencies.

Taxpayers need to check the “Yes” box if they:

- Received digital assets as payment for property or services provided;

- Transferred digital assets for free (without receiving any consideration) as a bona fide gift;
- Received digital assets resulting from a reward or award;
- Received new digital assets resulting from mining, staking, and similar activities;
- Received digital assets resulting from a hard fork (a branching of a cryptocurrency's blockchain that splits a single cryptocurrency into two);
- Disposed of digital assets in exchange for property or services;
- Disposed of a digital asset in exchange or trade for another digital asset;
- Sold a digital asset; or
- Otherwise disposed of any other financial interest in a digital asset.

Those who tick the “Yes” box must also report all income related to their digital asset transactions on relevant forms. For instance, an investor who sold cryptocurrency during 2022 would use [Form 8949, Sales and other Dispositions of Capital Assets](#).

Taxpayers should check the “No” box if they merely owned digital assets but didn’t engage in any transactions involving them in 2022.

They should also tick “No” if they merely transferred digital assets from one wallet or account they own or control to another one that they own or control, and if they bought digital assets using real currency like the U.S. dollar.

## Many Americans Will See Smaller Tax Refunds

The IRS has warned that many taxpayers should expect a smaller refund this tax season because of tax law changes including the expiration of pandemic-related stimulus payments that would otherwise have boosted refund balances.

“Due to tax law changes such as the elimination of the Advance Child Tax Credit and no Recovery Rebate Credit this year to claim pandemic-related stimulus payments, many taxpayers may find their refunds somewhat lower this year,” the IRS said in a [press release](#) on Jan. 23, the day the agency began tax returns for 2022 earnings.

Not all tax filers will see lower refunds as individual circumstances vary; many will see smaller checks.

The Recovery Rebate Credit was a way for millions of Americans to receive pandemic support if they did not receive their full amount via stimulus checks.

This credit was available for missing amounts from the first, second, and third round stimulus checks, and could only be claimed on 2020 and 2021 tax returns.

The stimulus checks were discontinued in December 2021 and the missing third-round amounts could only be claimed on a 2021 tax return filed in 2022.

However, people who may have missed the opportunity to claim missing third-round stimulus payments can review their 2021 tax return and [consider filing](#) an amended return.

The Child Tax Credit (CTC) for 2022 tax returns has been reduced to \$2,000 per child, down from the expanded amount of \$3,600 for children under 6 and \$3,000 for children between 6 and 17 in 2021.

Some taxpayers may be eligible for an Additional Child Tax Credit (ACTC), which would allow them to receive up to \$1,500 of the CTC as a refund on their tax return.

Also, a tax credit that working parents can use to help cover child care costs or that people with adult dependents can use for the same purpose is lower in 2022.

For tax year 2021, qualifying expenses were raised from \$3,000 to \$8,000 for one qualifying person and from \$6,000 to \$16,000 for two or more. The percentage eligible for the credit was increased from 35 percent to 50 percent.

But for 2022, qualifying expenses have been reduced back down to \$3,000 for one person and to \$6,000 for two or more. The percentage of qualified expenses that can be claimed now range from 20 percent to 35 percent.

The temporary enhancements also made the child and dependent care credit fully refundable. But for 2022, it has become non-refundable, meaning that at best it can only reduce one's tax bill to zero.

By Tom Ozimek

### **Category**

1. Economy-Business-Fin/Invest
2. Freedom-Free speech-Resistance & H-rights
3. Main

### **Date Created**

01/27/2023