



2026 EDITION | EDUCATIONAL GUIDE

Keep More of Your Hard-Earned Crypto.

The 2026 Crypto Tax Guide

Everything U.S. crypto investors need to file accurately, optimize legally, and stay out of IRS trouble.



INCLUDES: THE 2026 CRYPTO TAX CHECKLIST

COUNT ON SHEEP

Start Here: 3 Core Principles

Most of the legal upside in crypto taxes comes down to three ideas. Internalize these before you read another page.

01 Hold long, owe less

Long-term capital gains rates (assets held more than one year) sit at 0%, 15%, or 20%. Short-term gains are taxed as ordinary income, which can climb past 37%. The holding clock starts the day after you buy. One extra day of patience can cut your bill in half on the same coin.

02 Use losses on purpose

Realized losses offset realized gains dollar for dollar, then offset up to \$3,000 of ordinary income per year, then carry forward indefinitely. Crypto has no wash-sale rule yet, so you can sell a position at a loss and buy it right back. Losses left untouched in your portfolio are dollars you handed back to the IRS.

03 Track every wallet, all year

Per-wallet cost basis became the law on January 1, 2025 (Rev. Proc. 2024-28). Universal pooling is dead. Clean per-wallet records mean accurate filings, fewer IRS letters, and the freedom to choose the cost basis method that works in your favor on each disposal. Sloppy records turn every other principle on this page into wishful thinking.

The next 18 pages show you how to apply these three ideas to every taxable event you can hit in 2026 (capital gains, staking, NFTs, DeFi, lost coins, gifts, foreign exchanges, the works).



Three pillars. Master these and the rest of this guide is mechanics.

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Skim the headlines, then dig into the section that's costing you the most.

Crypto Tax vs Traditional Tax

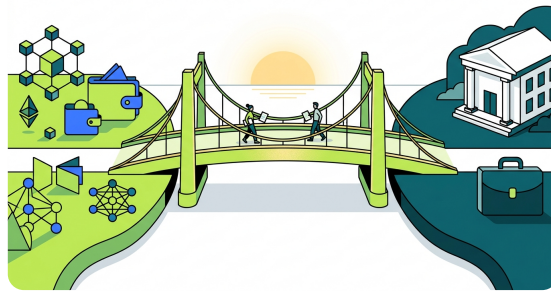
If you trade crypto or hold a portfolio, a crypto tax service belongs before your CPA, not instead of one. Here's why that order matters.

Two Different Worlds, One Tax Return

Traditional Tax	Crypto Tax
One brokerage, one 1099-B, basis is filled in	5+ exchanges, dozens of wallets, basis is missing or wrong
Wages, dividends, interest, capital gains	Trades, swaps, staking, mining, airdrops, NFTs, DeFi, bridges
Custodian tracks your cost basis	You track your cost basis (per wallet, Rev. Proc. 2024-28)
Forms arrive by mid-February	Forms come from on-chain data you have to reconstruct
CPAs train on this in school and on the job	Almost no CPA program teaches blockchain accounting

THE REAL PROBLEM

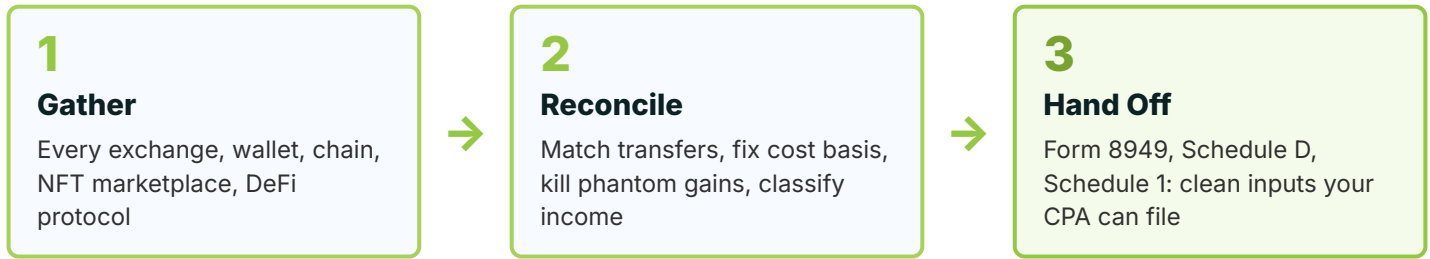
Most CPAs don't do crypto. The ones who do are usually filing the return without ever **reconciling the underlying activity**. That gap is where audits, phantom gains, and overpayments live.



Most filings live on one side or the other. The work is on the bridge.

Digital Asset Reconciliation (DAR)

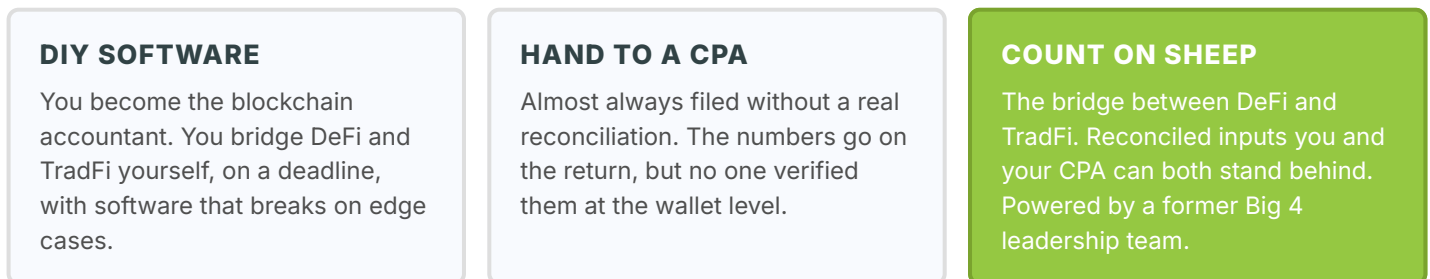
DAR is the step most people skip: pulling every wallet, exchange, and on-chain transaction into one ledger, fixing cost basis, killing phantom gains, and producing the inputs your CPA actually needs.



What DAR Catches That Filing Alone Misses

- ✓ **Accurate cost basis.** The single biggest driver of your true tax outcome.
- ✓ **No phantom gains.** Wallet-to-wallet transfers stop showing up as taxable disposals.
- ✓ **Tax-loss harvesting opportunities.** Surfaced before December 31, while you still have time.
- ✓ **Audit-ready documentation.** Every number on the 8949 traces back to an on-chain event.

Until Now, You Had Two Options



Compliance first. Then optimization. Done in the right order, by a team that built audit practices at the largest accounting firms in the world.

How Crypto Is Taxed in the U.S. (2026)

The IRS classifies all cryptocurrency as property. Not currency. Not a security. Property, like stocks or real estate.

This means every time you sell, trade, or spend crypto, you trigger a taxable event. The difference between your cost basis (what you paid) and the proceeds (what you received) equals your gain or loss.

Capital Gains vs Ordinary Income

There are two ways crypto gets taxed:

- **Capital gains:** From selling or trading crypto you already own. Rates depend on how long you held it.
- **Ordinary income:** From earning crypto (mining, staking, airdrops, wages). Taxed at your regular income rate.

Taxable vs Non-Taxable Events

Taxable (triggers tax)	Non-Taxable (no tax)
Selling crypto for USD	Buying crypto with USD
Trading one crypto for another	Transferring between your own wallets
Spending crypto on goods/services	Holding (HODLing)
Receiving mining/staking rewards	Gifting under \$19,000
Receiving airdrops you can sell	Donating to 501(c)(3) charity
DeFi swaps and LP deposits	Soft forks (no new tokens)

PRO TIP

The Form 1040 now asks: "Did you sell, exchange, or otherwise dispose of a digital asset?" You must answer Yes or No. A false answer is a federal tax return violation.



Taxable on the left, non-taxable on the right. Knowing the difference is half the battle.

Form 1099-DA: What It Is and What to Expect

Starting with the 2025 tax year (filed in 2026), centralized exchanges must report your crypto transactions directly to the IRS on Form 1099-DA.

This is the largest tax information reporting expansion in over a decade. Over 60 million forms are expected for the 2025 tax year alone.

What Exchanges Report

- Gross proceeds from every sale, trade, or disposal
- Cost basis (when known to the exchange)
- Dates acquired and sold
- Asset type (BTC, ETH, SOL, etc.)
- Transaction ID or hash

What They DON'T Report (the Gap)

Here is the problem. Exchanges only know what happened on their platform. If you transferred crypto in from another exchange or wallet, your cost basis shows up as \$0.

WATCH OUT

The \$0 basis trap: You buy 2 ETH on Coinbase for \$6,400. Transfer to Kraken. Sell on Kraken for \$8,200. Kraken reports: proceeds \$8,200, basis \$0. The IRS sees an \$8,200 gain. Your actual gain is \$1,800. That is a \$1,536 overpayment at the 24% bracket.

How to Reconcile

1. Gather all 1099-DA forms from every exchange
2. Compare proceeds to your records (usually accurate)
3. Check cost basis entries for \$0 or incorrect values
4. Reconstruct missing basis from original purchase records
5. File Form 8949 with corrected figures and Code B adjustment

Date	Proceeds	Basis
03/15/2024	\$47,250.00	\$31,400.00
11/02/2024		\$15,850.00

PRO TIP

The IRS receives the same 1099-DA you do. The question is not whether they will notice a discrepancy. The question is when.

Capital Gains: Short-Term vs Long-Term

Hold for 366 days (not 365) to guarantee long-term capital gains treatment. The rate difference is enormous.

2026 Long-Term Capital Gains Brackets

Rate	Single Filer	Married Filing Jointly
0%	\$0 - \$48,350	\$0 - \$96,700
15%	\$48,351 - \$533,400	\$96,701 - \$600,050
20%	\$533,400+	\$600,050+

Short-Term Rates (Ordinary Income)

Short-term gains are taxed at your regular income rate: 10% to 37% depending on your bracket.

The 3.8% Net Investment Income Tax (NIIT)

If your modified adjusted gross income exceeds \$200,000 (single) or \$250,000 (married), you owe an additional 3.8% on investment income. This creates effective top rates of 23.8% long-term and 40.8% short-term.

WORKED EXAMPLE

Scenario: You earn \$100,000 salary and sell crypto for a \$25,000 gain.

If short-term: Taxed at 24% = \$6,000 tax on the gain.

If long-term: Taxed at 15% = \$3,750 tax on the gain.

Savings from holding 1 extra day: \$2,250.

PRO TIP

The difference between a 37% short-term rate and a 0% long-term rate is not a rounding error. It is the entire gain. Plan your sales around holding periods whenever possible.



One extra day of patience can flip your rate. Time is the cheapest tax planning lever you have.

Income Events: Staking, Mining, Airdrops

Every token you earn is a taxable event. The IRS taxes earned crypto as ordinary income at the fair market value (FMV) on the date you receive it.



Mining, staking, airdrops, and wages. Four flavors of taxable crypto earnings.

Staking Rewards

Per Rev. Rul. 2023-14, staking rewards are taxed the moment they hit your wallet. Your cost basis equals the FMV at receipt. If you later sell at a higher price, you owe capital gains on the difference.

Mining Income

Hobby mining: Report income on Schedule 1, Line 8z. No expense deductions allowed (post-TCJA).

Business mining: Report on Schedule C. You can deduct equipment, electricity, and hosting. But you owe self-employment tax (15.3%).

Airdrops and Hard Forks

Per Rev. Rul. 2019-24, airdrops are taxed at FMV when you gain "dominion and control." If the token has zero value at receipt, your cost basis is \$0.

WORKED EXAMPLE

Mining scenario: You mine 0.25 BTC over the year. Average FMV at receipt dates: \$25,020 total income. Business expenses (electricity, hosting): \$9,000. Net profit: \$16,020. Self-employment tax: \$2,451. Plus ordinary income tax on \$16,020.

The Double Tax Reality

Earned crypto gets taxed twice. First as income when received, then as capital gains when sold at a higher price. This is normal (the same thing happens with stock compensation).

Event Type	Tax Treatment	Reported On
Staking rewards	Ordinary income at FMV	Schedule 1 or Schedule C
Mining (hobby)	Ordinary income	Schedule 1, Line 8z
Mining (business)	Self-employment income	Schedule C
Airdrops	Ordinary income at FMV	Schedule 1
Crypto wages	Employment income	W-2 or 1099-NEC

Per-Wallet Cost Basis (Rev. Proc. 2024-28)

Since January 1, 2025, every wallet is its own tax universe. Universal cost basis pooling across wallets is dead. Under Rev. Proc. 2024-28, each exchange account and self-custody wallet maintains its own separate cost basis pool. You can apply different methods (FIFO, HIFO, Spec ID) to each wallet independently.

What Changed

Before 2025	After January 1, 2025
Universal pooling across all wallets	Strict per-wallet allocation
Sell from any wallet, pick global lots	Only lots in THAT wallet are available
One method for everything	Different methods per wallet allowed

Why This Matters

WORKED EXAMPLE

You own 3 ETH across two wallets:

Coinbase: 2 ETH (bought at \$1,800 each)

Ledger: 1 ETH (bought at \$3,200)

You sell the Ledger ETH at \$4,000.

Old rules (universal): Could pick the \$3,200 lot globally. Gain = \$800.

New rules (per-wallet): Only the Ledger's \$3,200 lot is available. Gain = \$800. Same here, but in many cases the difference is dramatic.

If the Ledger held the \$1,800 lot instead, gain = \$2,200. A \$1,400 difference in taxable income from the same economic sale.

Action Steps

1. Document every wallet and exchange account you use
2. Track which lots live in each wallet after every transfer
3. Remember: transfers between wallets carry basis over (no tax event)
4. Choose your cost basis method per wallet and apply consistently
5. If you missed the January 1, 2025 safe harbor deadline, reconstruct records retroactively






Each wallet is its own tax universe. Lots stay where they live.

FIFO vs HIFO vs Spec ID

Choosing the right cost basis method is the single most impactful lever in your crypto tax strategy. The wrong choice can cost you thousands.

Cost Basis Methods Compared

FIFO	HIFO	Spec ID Most Flexible
		
<p>First In, First Out. Sells oldest lots first. IRS default if you don't specify.</p>	<p>Highest In, First Out. Sells highest-cost lots first. Minimizes taxable gain.</p>	<p>Specific Identification. You choose which lot to sell. Requires per-trade documentation.</p>
<p>WORKED EXAMPLE</p> <p>Bought 1 BTC @ \$20,000 (Jan 2024) Bought 1 BTC @ \$40,000 (Dec 2025) Sell 1 BTC @ \$30,000 (Mar 2026)</p> <hr/> <p>Sell the \$20K lot first. Gain = \$100K - \$20K = \$80,000</p> <p>Taxable gain: \$80,000 Long-term rate (held >1 yr)</p>	<p>WORKED EXAMPLE</p> <p>Bought 1 BTC @ \$20,000 (Jan 2024) Bought 1 BTC @ \$40,000 (Dec 2025) Sell 1 BTC @ \$30,000 (Mar 2026)</p> <hr/> <p>Sell the \$40K lot first. Gain = \$100K - \$40K = \$60,000</p> <p>Taxable gain: \$40,000 Short-term rate (held <1 yr)</p>	<p>WORKED EXAMPLE</p> <p>Bought 1 BTC @ \$20,000 (Jan 2024) Bought 1 BTC @ \$40,000 (Dec 2025) Sell 1 BTC @ \$30,000 (Mar 2026)</p> <hr/> <p>Pick \$40K lot (lower gain, short-term) OR pick \$20K lot (higher gain, long-term)</p> <p>Taxable gain: You decide Optimize rate + holding period each trade</p>

Per Rev. Proc. 2024-28, each wallet/exchange is a separate basis pool starting Jan 1, 2025.
Spec ID requires written confirmation from your broker at time of sale. Consult your CPA before switching methods.

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The Methods

Method	How It Works	Best For
FIFO	Sells oldest lots first	Simple portfolios, few transactions
HIFO	Sells highest-cost lots first	Minimizing current-year tax bill
Spec ID	You choose which lot to sell	Maximum control, complex portfolios

WORKED EXAMPLE

You sell 2 ETH at \$4,000 each (\$8,000 total proceeds).

Your lots: Lot 1 at \$1,600 (Jan 2024), Lot 2 at \$3,400 (Jun 2024), Lot 3 at \$2,100 (Mar 2025), Lot 4 at \$3,800 (Dec 2025).

FIFO: Uses Lots 1+2. Basis \$5,000. Gain \$3,000. Both long-term at 15% = \$450 tax.

HIFO: Uses Lots 4+2. Basis \$7,200. Gain \$800. Tax = \$138.

Savings with HIFO: \$312 on a single sale.

IRS Requirements for Spec ID

- Must identify the specific lot BEFORE or at the time of sale
- Must maintain contemporaneous records of the identification
- Must apply consistently (no cherry-picking after the fact)
- Under Rev. Proc. 2024-28, applies per-wallet only

PRO TIP

FIFO is the IRS default. If you do not specify a method, FIFO applies automatically. For most investors in a bull market, this produces the highest tax bill because your oldest (cheapest) lots sell first.

NFTs and DeFi

DeFi and NFTs create some of the most complex tax situations in crypto. Here is what you need to know.

NFT Tax Rules

The 28% collectible trap: Art-based NFTs (PFPs, generative art, digital art) may be taxed at the 28% collectible rate for long-term gains instead of the standard 20% maximum. Non-art NFTs (gaming items, memberships, domains) get standard rates.

Minting = taxable disposal of crypto. When you mint an NFT for 2 ETH, you dispose of the ETH. If your ETH basis was \$2,000 and FMV is \$3,200 per ETH, you recognize a \$2,400 gain at mint.

Liquidity Pool Tax Traps

Depositing tokens into a liquidity pool is likely a taxable exchange event. You dispose of your tokens and receive LP tokens in return.

WATCH OUT

LP deposit example: You deposit 5 ETH (basis \$2,000 each, current FMV \$3,200 each) into Uniswap. This triggers a \$6,000 capital gain immediately, before you earn a single fee.

DeFi Income Reporting

Activity	Tax Type	Form
Selling/swapping NFTs	Capital gains	Form 8949
LP deposit/withdrawal	Capital gains	Form 8949
Staking rewards	Ordinary income	Schedule 1 or C
Lending interest	Ordinary income	Schedule B
NFT royalties (creator)	Self-employment	Schedule C
Yield farming rewards	Ordinary income	Schedule 1 or C

Wrapping and Bridging

IRS guidance on wrapping (ETH to WETH) and bridging (ETH to Arbitrum) remains unclear. The conservative approach: treat as a taxable exchange. Track dates and FMV regardless.



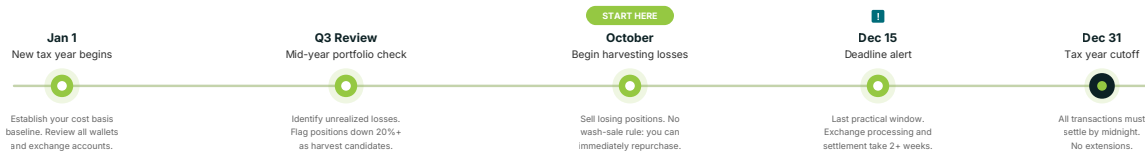
NFTs and DeFi: bigger upside, more taxable trapdoors.

Tax-Loss Harvesting

Crypto has a massive advantage over stocks in 2026: the wash sale rule does not apply. You can sell at a loss and rebuy immediately.

Tax-Loss Harvesting Playbook Timeline

Key dates for maximizing crypto tax-loss harvesting in 2026 (no wash-sale rule for crypto yet)



Pro Tip: Crypto is not subject to wash-sale rules (as of 2026). You can sell at a loss and repurchase immediately.
Proposed legislation may change this. Work with a CPA to stay ahead of regulatory shifts.

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How It Works

1. Identify positions currently below your cost basis
2. Sell the asset to realize the loss
3. Repurchase immediately (wash sale does not apply to crypto)
4. Report the loss on Form 8949

What losses can offset:

- Losses offset gains dollar-for-dollar (short-term offsets short-term first)
- Up to \$3,000 of excess losses offset ordinary income per year
- Remaining losses carry forward indefinitely

WORKED EXAMPLE

Sarah's situation:

BTC sale: \$17,000 short-term gain

SOL harvest: \$900 short-term loss

ETH harvest: \$7,000 long-term loss

Net taxable: \$9,100 short-term gain. Tax at 24% = \$2,184.

Without harvesting: \$17,000 at 24% = \$4,080.

Tax saved: \$1,896. And Sarah still holds SOL and ETH with a fresh (lower) cost basis.

WATCH OUT

Congress has introduced multiple proposals to extend wash sale rules to crypto. No legislation has passed as of May 2026. Harvest your losses while this window remains open.

Lost or Stolen Crypto

Over \$3.8 billion in crypto was stolen through hacks and scams in 2025 alone. Here is what you can (and cannot) deduct.

Theft Losses (2026 Rules)

The TCJA suspended personal casualty and theft loss deductions from 2018 through 2025. If Congress lets the suspension expire, theft losses become deductible again under IRC Section 165(e) for 2026. Check IRS.gov before filing.

Worthlessness Deductions (Always Available)

If a token becomes completely worthless, you can claim a capital loss regardless of the TCJA status. The token must have:

- No trading volume on any exchange
- No active development or team
- No reasonable expectation of future value

Report on Form 8949 as a sale at \$0 proceeds on the date worthlessness is determined.

WORKED EXAMPLE

You bought 50,000 DeFiMoon tokens for \$10,000 in March 2024. Website went offline mid-2025. Zero volume. All social media deleted.

Form 8949 entry: Proceeds \$0, basis \$10,000, loss (\$10,000). Can offset gains or claim \$3,000/year deduction with carryforward.

Lost Wallet Keys

Permanently inaccessible crypto can be treated like abandonment. Document: how keys were lost, professional recovery service confirmation of unrecoverability, blockchain explorer showing untouched balance.

PRO TIP

Send worthless tokens to a burn address (0x000...dead). This creates an on-chain record of permanent disposal and strengthens your abandonment claim.



Lost keys, dead tokens, stolen coins. The IRS still wants documentation.

Crypto Gambling and Prediction Markets

All gambling winnings are taxed as ordinary income at fair market value when received. No exceptions for crypto.

Reporting Requirements

Report gambling income on Schedule 1, Line 8b. You may receive Form W-2G for large wins (\$1,200+ slots, \$5,000+ poker tournaments, \$600+ at 300:1 odds).

No W-2G does NOT mean no tax. Offshore platforms (Stake, BC.Game, Roobet) do not report to the IRS, but your income is fully taxable.

Prediction Markets

Polymarket, Kalshi, and similar platforms: the IRS has not issued formal guidance. The safest approach is to treat all payouts as gambling income (ordinary income rates).

Loss Deduction Rules

Rule	Detail
Losses only offset winnings	Cannot reduce other income types
Must itemize	Standard deduction filers lose this benefit
Report gross, not net	\$12K wins + \$18K losses = report \$12K income + \$12K loss
Excess losses vanish	Cannot carry forward gambling losses

WATCH OUT

Offshore crypto casinos may trigger FBAR filing if your aggregate foreign account balance exceeds \$10,000 at any point during the year. Penalties for non-filing: \$10,000+ per violation.



If it pays out in crypto, the IRS still calls it gambling income.

FBAR and Form 8938

If you hold crypto on a foreign exchange, you may have reporting obligations beyond your tax return. The penalties for missing these are severe.

FBAR (FinCEN Form 114)

- **Threshold:** \$10,000 aggregate across ALL foreign accounts at any point during the year
- **Filed with:** FinCEN (not the IRS)
- **Deadline:** April 15 (automatic extension to October 15)
- **Penalty (non-willful):** \$10,000+ per violation
- **Penalty (willful):** \$100,000 or 50% of account balance, plus possible criminal prosecution

Form 8938 (FATCA)

- **Threshold (single, US):** \$50,000 year-end or \$75,000 at any point
- **Threshold (married, US):** \$100,000 year-end or \$150,000 at any point
- **Filed with:** IRS (attached to Form 1040)
- **Penalty:** \$10,000 per violation, plus \$10,000 for each 30-day non-compliance period

Which Exchanges Trigger Filing?

Foreign (triggers FBAR/8938)	U.S. (no foreign reporting)
Binance.com	Coinbase
KuCoin	Kraken
Bybit	Gemini
OKX	Crypto.com (US)
Gate.io	Binance.US

PRO TIP

Self-custody wallets (MetaMask, Ledger) are generally NOT reportable because you hold the private keys directly. But FinCEN is considering expanding requirements. Track your balances regardless.



Crypto held offshore still owes paperwork at home.

Gifts and Estate Planning

Gifting crypto can be tax-free. But the cost basis rules create traps that most people miss.

Annual Gift Tax Exclusion (2026)

- **Individual:** \$19,000 per recipient, per year (no tax, no form required)
- **Married couple (gift splitting):** \$38,000 per recipient (both must file Form 709)
- **Lifetime exemption:** ~\$13.99 million per individual
- **Gift tax rate:** 40% on amounts exceeding the lifetime exemption

Cost Basis Rules for Gifts

Carryover basis: The recipient inherits the donor's original cost basis. If your uncle bought BTC at \$5,000 and gifts it to you at \$18,000 FMV, your basis is \$5,000. If you sell at \$25,000, your gain is \$20,000.

Stepped-Up Basis at Death

Inherited crypto receives a stepped-up basis to FMV on the date of death. This eliminates all unrealized gains. A \$1 million BTC position with \$50,000 basis becomes \$1 million basis for the heir.

PRO TIP

Charity hack: Donate crypto held over 1 year to a 501(c)(3). Deduct full FMV and pay zero capital gains. Example: ETH bought at \$500, worth \$10,000. Donate directly = \$10,000 deduction + \$0 gains tax. Sell first, then donate cash = capital gains tax on \$9,500 gain.

Form 709 Requirements

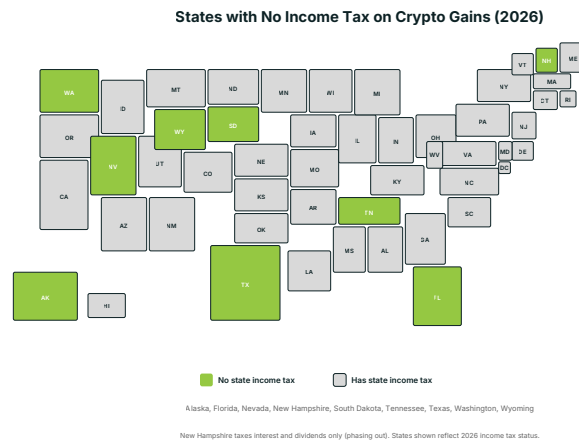
File Form 709 if you give more than \$19,000 to any single recipient in a calendar year. Report FMV at the date and time of the gift. Deadline: April 15 of the following year.



Gifting crypto can be tax-free. Cost basis travels with the coins, so document everything.

Crypto Taxes by State

The same \$500,000 crypto gain costs roughly \$46,500 more in California state taxes compared to Texas. State residency matters enormously.



No-Income-Tax States

Nine states impose zero income tax on crypto gains: **Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington*, Wyoming.**

*Washington charges a 7% capital gains excise tax on gains exceeding \$270,000.

High-Tax States

State	Top Rate	Long-Term Preference?	Notes
California	13.3%	No	Taxes gains as ordinary income
New York	10.9%	No	NYC adds 3.8% (total 14.7%)
New Jersey	10.75%	No	No long-term preference
Hawaii	11%	No	Historically restrictive

WATCH OUT

Residency traps: California's "safe harbor" treats you as a resident if you spend 9+ months in state, even after a move. New York's 183-day rule plus "permanent place of abode" test catches many who think they have relocated. Audit risk is real if your relocation appears to be a sham.

WORKED EXAMPLE

\$100,000 long-term gain, single filer at \$80K salary:

Texas: \$15,000 federal only.

California: \$15,000 federal + ~\$9,300 state = \$24,300 total.

Difference: \$9,300.

How to File: Form 8949 + Schedule D

Every crypto disposal goes on Form 8949. The totals flow to Schedule D. Here is exactly how to fill them out.

Cheat Sheet: What Form Do I File For ___?

If you did this in 2025	You file	Where it lands
Sold or swapped any crypto	Form 8949 + Schedule D	Form 1040, Line 7
Earned staking rewards (hobby)	Schedule 1, Line 8z	Form 1040, Line 8
Mined as a business	Schedule C + Schedule SE	Form 1040, Line 8 + 23
Received airdrops or hard forks	Schedule 1, Line 8z	Form 1040, Line 8
Got paid in crypto (W-2)	Reported on W-2	Form 1040, Line 1a
Got paid in crypto (1099-NEC / contractor)	Schedule C + Schedule SE	Form 1040, Line 8 + 23
Earned DeFi lending interest	Schedule B	Form 1040, Line 2b
Won crypto gambling	Schedule 1, Line 8b	Form 1040, Line 8
Held more than \$10K on a foreign exchange	FinCEN Form 114 (FBAR)	Filed separately, not with 1040
Held foreign crypto over the FATCA threshold	Form 8938	Attached to Form 1040
Gifted more than \$19K to one person	Form 709	Filed separately, not with 1040
Donated crypto over \$500 to charity	Form 8283	Attached to Form 1040

Step 1: Choose Your Box (A, B, or C)

Box	When to Use
A	1099-DA reports BOTH proceeds and cost basis
B	1099-DA reports proceeds but NOT cost basis
C	No 1099-DA (DeFi, P2P, foreign exchanges)

Step 2: Fill the Columns

For each transaction: (a) Description, (b) Date acquired, (c) Date sold, (d) Proceeds, (e) Cost basis, (f) Adjustment code if needed, (g) Adjustment amount, (h) Gain or loss.

Step 3: Separate Short and Long

Part I = short-term (held 365 days or less). Part II = long-term (held more than 365 days).

WORKED EXAMPLE

Transaction: Bought 1 ETH March 15, 2026 for \$2,400. Sold August 10, 2026 for \$3,100.

Form 8949 Part I (short-term), Box A:

(a) 1 ETH | (b) 03/15/2026 | (c) 08/10/2026 | (d) \$3,100 | (e) \$2,400 | (h) \$700 gain

Step 4: Flow to Schedule D

Part I totals from Form 8949 go to Schedule D Part I (line 1b/2/3). Part II totals go to Schedule D Part II (line 8b/9/10). Net results flow to Form 1040.

Handling Hundreds of Transactions

Attach a summary statement. Enter totals on Form 8949 with "See attached statement" in the description. Crypto tax software (CoinTracker, Koinly, CoinTracking) generates this automatically.

PRO TIP

If your 1099-DA shows \$0 cost basis for transferred crypto, use adjustment Code B in column (f) and enter your correct basis. Keep documentation of the original purchase.

Common Adjustment Codes (Column f)

Code	What It Means	Most Common Use
B	1099-DA cost basis is wrong	Transferred crypto reported at \$0 basis. Use Code B and enter the real basis.
D	Wash sale loss disallowed	Not applicable to crypto in 2026 (no wash sale rule yet).
L	Nondeductible loss	Personal-use property losses (rare for crypto investors).
N	Reported on incorrect form	Exchange filed a 1099-MISC instead of 1099-DA. Reclassify to capital gain.
O	Other adjustment, see notes	Catch-all. Pair with a written explanation attached to the return.
T	Holding period adjustment	Inherited crypto (always long-term) or gifted lots with split holding periods.

PRO TIP

Codes can stack. If you fix a \$0 basis (B) AND inherited the lot (T), enter "BT" in column (f). The IRS reads compound codes in alphabetical order.



One letter in column (f) can save thousands. Worth the extra minute of review.

IRS Letters 6173, 6174, 6174-A

The IRS is sending more crypto compliance letters in 2026 than ever before. Here is what each one means and exactly how to respond.

The Three Letters

Letter	Severity	Response Required?	What It Means
6174	Low	No	Informational. IRS knows you have crypto.
6174-A	Medium	Recommended	Soft warning. Review and amend if needed.
6173	High	YES (30 days)	IRS believes income unreported. Respond or face audit.

How to Respond to Letter 6173

1. Note the exact deadline (30 days from letter date)
2. Gather ALL records: exchanges, wallets, DeFi, P2P transactions
3. Compare with your filed returns
4. File Form 1040-X (amended return) if discrepancies exist
5. Send response via certified mail with all supporting documentation
6. Pay any additional tax owed to stop interest from accruing

Penalties for Non-Compliance

Penalty	Rate
Failure-to-file	5%/month, max 25%
Failure-to-pay	0.5%/month, max 25%
Accuracy-related	20% of underpayment
Fraud	75% of underpayment

PRO TIP

Early action leads to better outcomes. Delay and avoidance make everything worse. If you receive Letter 6173 and have complex DeFi, NFT, or foreign exchange activity, hire a crypto-specialized CPA before responding.



Three letters, three severity levels. Open them. Don't wing the response.

The 2026 Crypto Tax Checklist

Print this page. Work through it once before you file. Each item maps to a section in this guide.

STEP 1 | GATHER YOUR DATA

- Pull every 1099-DA you receive from U.S. exchanges (Coinbase, Kraken, Gemini, Binance.US, etc.)
- List every wallet address and exchange account you used in 2025, including ones you forgot about
- Export full transaction history (CSV or API) from each platform
- Pull on-chain history for self-custody wallets (Etherscan, Solscan, etc.)
- Save records of any crypto received as income: staking, mining, airdrops, hard forks, payments

STEP 2 | RECONCILE AND FIX THE GAPS

- Cross-check 1099-DA totals against your own records. Note any missing or wrong cost basis
- Identify transfers that landed at exchanges with \$0 cost basis. Restore the real basis
- Account for every crypto-to-crypto swap, LP deposit, and NFT purchase as a disposal
- Confirm holding period for each disposal. More than 365 days for long-term treatment

STEP 3 | CHOOSE YOUR METHOD, ON PURPOSE

- Pick a cost basis method per wallet for 2025: FIFO, HIFO, or Spec ID (Rev. Proc. 2024-28)
- If using Spec ID, confirm contemporaneous records exist for each lot
- Identify realized losses you can harvest before December 31 to offset gains
- Confirm you carried over any unused capital losses from prior years

STEP 4 | FILE CORRECTLY

- Complete Form 8949 for every disposal (short-term and long-term boxes A/B/C and D/E/F)
- Roll totals into Schedule D and onto Form 1040
- Report income events (staking, mining, airdrops) on Schedule 1 or Schedule C
- Check the digital asset question on Form 1040. Answer truthfully

STEP 5 | COVER THE EDGE CASES

- FBAR (FinCEN 114) if any foreign exchange account exceeded \$10,000 at any point in 2025
- Form 8938 if foreign-held crypto exceeds \$50,000 single / \$100,000 joint year-end (or \$75,000 / \$150,000 anytime)
- Form 709 if you gifted more than \$19,000 of crypto to any one person in 2026
- Document any theft, worthlessness, or lost-key losses with dated evidence

FINAL CHECK

If you cannot tick every box on this page with confidence, the safer path is a one-hour conversation with a crypto-focused tax professional before you file.

Next Steps

You now have the principles, the rules, and the checklist. Here is how to act on them.

If you want to handle this yourself

Walk through the checklist on the previous page in order. Use the relevant section of this guide for any item that needs more context. File before the April deadline (or with an extension if you need more time to reconcile).

If you want help

Book a free 20-minute consult with the team at Count On Sheep. No pressure, no pitch. We will tell you whether your situation is straightforward enough to file solo or complex enough to warrant a CPA in your corner.

Want a CPA to Handle This?

Book a free 20-minute consult with David at Count On Sheep. No pressure, no pitch.
Just clarity on your crypto tax situation.

cal.com/team/count-on-sheep/david-20min

Read the full pillar guide online:
countonsheep.com/blog/crypto-tax-guide-2026

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