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treat Bitcoins and other virtual currencies when it comes to taxes.

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The question has lingered for about two years, but the IRS has finally decided how to treat bitcoin and other virtual currencies when it comes to taxes.

Recent news about people increasingly turning to the internet-based funds has garnered some attention. Whether to avoid taxes or because they see the currencies as more solid than the dollar and other nation-based currencies, people from all walks of life have been increasingly at least trying them. For instance, a [police chief in Kentucky](#) recently asked for his salary to be paid in bitcoin.

The Internal Revenue Service has finally issued a notice providing answers to frequently asked questions (FAQs) on virtual currency, such as bitcoin. These FAQs provide basic information on the U.S. federal tax implications of transactions in, or transactions that use, virtual currency.

In some environments, virtual currency operates like “real” currency — i.e., the coin and paper money of the United States or of any other country that is designated as legal tender, circulates, and is customarily used and accepted as a medium of exchange in the country of issuance — but it does not have legal tender status in any jurisdiction.

The notice provides that virtual currency is treated as property for U.S. federal tax purposes. General tax principles that apply to property transactions apply to transactions using virtual currency. Among other things, this means that:

- Wages paid to employees using virtual currency are taxable to the employee, must be reported by an employer on a Form W-2, and are subject to federal income tax withholding and payroll taxes.

- Payments using virtual currency made to independent contractors and other

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