



Cracking the Code: Cryptocurrency Tax Solutions

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Key Takeaways

- The tax system for digital assets is overly complex, causing unnecessary taxpayer burden and noncompliance.
- Congress is increasingly interested in comprehensively reforming the tax code to address cryptocurrency and digital assets, yet no agreement has been reached.
- Digital assets are a new technology with a multitude of use cases. Several commonsense tax solutions taken together would reduce burdens, increase compliance, and protect revenue.

Executive Summary

As digital assets go mainstream, they are outgrowing a tax code that still lacks clear rules to govern them. Millions of Americans now hold digital assets such as cryptocurrencies and non-fungible tokens (NFTs), and it is increasingly clear that the patchwork of tax guidance users must rely on is failing to serve both taxpayers and tax collectors.

Although the IRS announced over a decade ago in [Notice 2014-21](#) that it would treat virtual currency as property for tax purposes, noncompliance remains high. A recent [study](#) shows that the IRS only captures 32% to 56% of American cryptocurrency owners in its reporting data. That is even with the addition of a checkbox on the 1040 Individual Income Tax Return form in 2019 requiring filers to disclose whether they have received or disposed of digital assets within the past year. In 2023, the IRS reported that [noncompliance](#) among those who use centralized exchanges could be as high as 75%.

The immense complexity that taxpayers face in reporting digital asset transactions underpins low compliance rates and should catalyze congressional action. Hasty proposals that attempt to categorize vast swaths of digital asset transactions under existing tax rules to boost revenue will only make the issue worse. Congress's only significant attempt to capture more revenue from digital asset transactions in recent years, the Infrastructure Investment and Jobs Act (IIJA) of 2021, worsened the problem.

In the years since passage of the IIJA, Congress has taken a more [measured approach](#) to digital asset taxation, with both the Senate and House of Representatives holding [multiple hearings](#) on the topic. Furthermore, there have been [comprehensive bipartisan](#) legislative proposals introduced in both chambers. While critics argue that these proposals would create special rules for the digital assets industry, laws that increase tax compliance through reduced complexity can provide a mutually beneficial path forward.

Congress should take a holistic approach to digital asset tax reform. Enacting a de minimis tax exemption that applies to digital assets beyond just stablecoins greatly reduces tax reporting burdens while aligning with the economic reality of small transactions. Delaying taxation of digital assets created through mining and staking until their disposition avoids cash-flow problems and phantom tax liabilities. Alongside these policies, Congress can consider applying tax provisions for securities and commodities to digital assets where it makes sense. This includes wash sale rules, mark-to-market election, and clarifying the taxability of digital asset lending. Taken together, these proposals would reduce the compliance burden taxpayers face while protecting the tax base.

Digital Asset Tax Complexity

Digital asset transactions are reported on Form 1099-DA, which was finalized by the IRS in 2025 in the aftermath of the IIJA. This law extended tax [reporting requirements](#) typically intended for stock brokers to a broad set of digital asset users, including miners who may not facilitate any cryptocurrency transactions. A bipartisan [amendment](#) to clarify and narrow the bill's definition of "broker" failed on the Senate floor, paving the way for the IRS to interpret the definition of "broker" through [regulations](#) that were outdated, burdensome, and a threat to innovation. Congress eventually [repealed](#) a regulation that would have forced decentralized platforms to report users' transactions, even though these platforms do not operate as true third-party intermediaries. Centralized exchanges still report users' transactions on a 1099-DA.

The 2026 tax season marked the first year that digital asset exchanges were required to send comprehensive 1099-DA forms to users of their platforms. Since IRS Notice 2014-21 and subsequent guidance established that nearly all dispositions of digital assets are reportable events, millions of taxpayers received forms for transactions of all sizes. One [exchange](#)

alone reported that it issued nearly 56 million 1099-DA forms, with nearly a third covering transactions worth less than \$1, and three out of every four covering transactions under \$50.

To add to the [confusion](#), users of the largest digital asset exchanges in the U.S. may not have received these forms [until mid-March](#), as the IRS [allowed exchanges to wait](#) until February 17 to send them. In addition to late forms, exchanges are not required to report [cost basis information](#) on 1099-DA forms, requiring digital asset users to calculate this themselves. As users trade multiple forms of cryptocurrency, account for small transaction fees known as “gas fees,” and deal with variable prices, these calculations can become very time-consuming. Lack of basis information also misleads recipients as to what they owe, leading them to potentially overestimate their tax liability. Exchanges will be required to report more of this information next year, but only if users do not transfer the assets to other platforms.

The overwhelming complexity taxpayers are facing this filing season related to 1099-DA reporting was largely anticipated. In fact, NTUF’s annual Tax Complexity report was [revised](#) in 2024 due to IJJA’s digital asset broker reporting requirements. The IRS updated its taxpayer burden estimate to reflect that this change could lead to an increase of 2.9 billion form filings.

Complexity exists throughout the tax code, but the decentralized nature of digital assets and the near-instantaneous manner in which users transact them means that individual taxpayers could make hundreds of reportable transactions per year. This is compounded by new reporting requirements being implemented this year, with a recent [study](#) estimating that 61% of digital asset users do not understand the new system.

Similarities within the Tax Code

While the IRS attempted to blunt the effects of new reporting requirements by pushing form filing dates later into the tax season and allowing for omission of cost basis information, heightened flexibility is often a signal that current law is unworkable.

A [recent example](#) worth comparing to digital asset taxation is reporting for transactions completed through third-party settlement organizations that are filed on Form 1099-K. The parallel between 1099-K reporting and 1099-DA reporting is so striking that the Government Accountability Office [stated](#) that the IRS should use lessons learned from 1099-K reporting in its efforts to implement 1099-DA requirements.

Congress implemented reporting requirements for users transacting on platforms such as PayPal and eBay in 2008, requiring platforms to issue a 1099-K if a user had more than 200 transactions totaling over \$20,000 in a calendar year. In the Inflation Reduction Act of 2021, Congress reduced the reporting threshold to just \$600 with no transaction minimum. In light of widespread concern regarding the millions of forms taxpayers would receive for transactions that may not be taxable, the IRS delayed and subsequently phased-in implementation of the law for several years. Ultimately, Congress [restored](#) the prior threshold through the One Big Beautiful Bill Act of 2025.

The experience showed the appropriate tax law solution to the problem is unique to the use case itself. For digital assets, the appropriate tax law solution to various issues of complexity and fairness must acknowledge the unique nature of the underlying asset.

While critics suggest that any digital assets tax package amounts to creating special rules for the cryptocurrency industry, the tax code routinely singles out certain transaction types in order to align their tax treatment with economic reality. This is true for like-kind exchanges through Section 1031, the tax treatment of carried interest, and the tax framework created for futures contracts under Section 1256. Although Congress does also occasionally provide tax benefits to certain industries, the digital asset proposals currently under discussion address key challenges in reporting that taken together would likely increase tax revenue.

Digital Asset Tax Proposals

Several digital asset tax frameworks are [currently](#) pending in Congress, notably by Senator Cynthia Lummis (R-WY) and Representative Max Miller (R-OH) and Steven Horsford (D-NV). On June 9, 2026, the House Ways and Means Committee held a hearing on digital asset taxation. Committee members on both sides of the aisle unveiled a [package](#) of six bills and two discussion drafts ahead of the hearing, each targeting a specific aspect of digital asset tax treatment. Despite taking different approaches, the proposals under consideration seek to remedy some of the most critical issues facing taxpayers while also protecting the tax base.

De Minimis Exemption

One of the most sensible solutions to the complex reporting system currently in place for digital assets is a de minimis tax exemption that applies to digital assets beyond just stablecoins. A de minimis exemption that excludes a certain threshold of cryptocurrency sold, spent, or otherwise disposed of would greatly reduce needless tax reporting burdens, even if set at a low amount. As mentioned above, a de minimis exemption of just \$50 that covers most crypto assets would reduce the number of tax forms generated for just one digital asset exchange by about [40 million](#), or 75%.

A de minimis exemption for digital assets is comparable to the existing foreign currency exemption. This allows taxpayers to exempt up to \$200 of gains from personal transactions using foreign currency from gross annual income, with some [proposals](#) increasing the exemption to \$1,000 and indexing it for inflation. The 1099-K reporting threshold serves as another example where excluding a small amount of transactions from tax reporting makes sense to ameliorate the compliance burden for the public and the administrative burden for the IRS.

The difference between a de minimis exemption for cryptocurrency and other similar items in the tax code is the broad range of economic activity that can be stifled through needlessly restrictive application of tax law. The typical example demonstrating one use case for digital assets that is all but impractical without a de minimis exemption is the purchase of a cup of coffee with cryptocurrency. If someone purchases \$5 worth of a digital asset that has a value of \$100 per coin, and then the coin subsequently appreciates in value to \$150 per coin, the person now owns \$7.50 worth of that digital asset. Should they spend it all on a vanilla latte, they will need to file a tax return for the \$2.50 in capital gain they realized at the moment of purchase.

Another even better example of the risks of not implementing a de minimis exemption is “gas fees.” [Gas fees](#) are very small amounts of cryptocurrency used to validate transactions, having little inherent economic value aside from lending credibility to the transaction at hand. A de minimis exemption would spare taxpayers from reporting trivial gas fees, which often amount to just a few cents. This would be especially beneficial when small fees are tied to otherwise untaxable events like swapping one dollar-pegged stablecoin for another.

It would also cover yet-to-be-explored innovations for digital asset use cases involving small amounts of cryptocurrency. As it currently stands, small amounts of cryptocurrency can be used to power web searches and data retrieval conducted by [autonomous agents](#). In fact, Bitcoin itself was developed using technology originally used to [block spam](#) by assessing a very small cost to send emails, an idea that has been recycled for [social media](#) and [CAPTCHA](#). Other uses include small payments to vote on [corporate governance](#) for decentralized protocols or collecting a [badge](#) to prove attendance at an event. These uses could be quashed through the wrong government approach.

The U.S. also lags behind other countries on this front. The United Kingdom [exempts](#) annual capital gains under £3,000 from taxation, including digital asset transactions. Germany has a de

minimis exemption of 1,000 euros for personal transactions and [exempts](#) digital assets held for more than 12 months from capital gains tax entirely.

The current system drives a wedge between taxpayers who can afford sophisticated tax software and accountants and those who cannot. Because every transaction is taxable yet cost-basis calculations are highly intricate, there is a high risk of unintentional noncompliance by lower-income taxpayers. This complexity also serves as a barrier to entry for those who would otherwise benefit from the ability to use new digital asset innovations.

Digital Asset Rewards

Another important issue is when to tax new digital assets created through mining and staking. Mining, used in Proof-of-Work blockchains such as Bitcoin, involves solving complex cryptographic problems that yield new tokens. Staking, used in Proof-of-Stake blockchains, requires locking tokens into the blockchain in exchange for rewards, typically additional cryptocurrency.

The debate surrounding the taxation of mining and staking centers around whether new tokens constitute compensation for services, self-generated property, or [something else](#) entirely.

Unlike an employer paying for work, blockchains are self-executing code, known as smart contracts, that release tokens when specific circumstances are met. This is not the same as transferring an asset from one individual or physical entity to another. Also, unlike compensation for labor, the market price of digital assets generated through mining and staking is highly variable depending on factors outside of the recipient's control and generally not determined by the blockchain itself.

[Others](#) argue that digital assets should not be treated as self-created property because they have purchasing power immediately upon creation. While this is true to some extent, digital assets, including stablecoins that are not created via mining or staking, are still [rarely used](#) in our day-to-day payments system.

Delaying taxation of digital assets created through mining and staking until their disposition is a common-sense way to avoid cash-flow problems and phantom tax liabilities. This aligns with the [realization principle](#) of taxation, which states that a taxpayer should not owe tax on an asset until they have actually realized its value, often through a sale or exchange. Digital assets earned through mining or staking cannot be readily used as liquid currency until they are sold, exchanged, or otherwise disposed of. Additionally, many stakers face a lock-up period during which they cannot withdraw their rewards. Delaying until disposition is a sensible way to prevent taxation on locked rewards.

Beyond liquidity issues, price volatility makes early taxation especially punishing. A taxpayer could owe a large tax bill based on the peak value of rewards received months earlier, only to watch those tokens lose most of their value by tax season. This makes digital assets unlike most other assets that tend to hold or appreciate in value by the time taxes are due.

Policymakers are evidently still uncertain which tax treatment is best, leading Representatives Max Miller (R-OH) and Steven Horsford (D-NV) to propose a [compromise](#) allowing taxpayers to defer paying tax on rewards for up to five years. While this is a thoughtful solution, it could have unintended consequences as taxpayers may sell en masse under certain market conditions to reduce tax liability or be forced to sell when their tax liability would be highest.

While the Miller-Horsford solution is imperfect, it is clear that Congress must address the tax treatment of digital assets created through mining and staking. The 2023 court case [Jarrett v. United States](#) demonstrates the critical need for tax clarity. In this case, the IRS provided the taxpayer a refund for taxes paid on staking rewards after the taxpayer took the position that

rewards are not taxable income. However, the IRS did not provide further instruction as to whether the future rewards are taxable. Not only does this violate the [taxpayer's right](#) to be informed, it also violates the taxpayer's right to pay no more than the correct amount. A refiled case by the Jarretts is currently pending in the U.S. District Court for the Middle District of Tennessee.

The more recent [case](#) of *Paschall v. Commissioner* also does little to resolve this uncertainty. In this case, the Tax Court issued a memorandum decision on June 4 declaring that the taxpayer's staking rewards were taxable. This type of decision is reserved for fact-driven cases and is non-precedential. The facts the Court relied on for this decision were provided by the taxpayer, who did not obtain legal representation, and contradicted the taxpayer's own position. The taxpayer argues that the staking rewards are self-created property but also stipulates that they did not create the rewards. The Tax Court admits in its [decision](#), issued in June 2026, that there are "several areas where the lack of expert testimony hampers our analysis."

Securities and Commodities Treatment Fixes

Digital assets often serve as investments in addition to niche use cases such as credentials for [digital identity](#) and [decentralized networks](#). The Trump Administration has taken a measured approach to defining which digital asset investments constitute [securities](#) and [commodities](#). Relevant federal regulators must provide clarity for investors after the industry previously faced [extreme hostility](#) from the Securities and Exchange Commission.

While many elements of blockchain technology do not fit neatly into existing tax law, it makes sense to apply various tax provisions intended for the securities and commodities industries to digital assets to guard against abuse and revenue loss. These include the wash sale rule, mark-to-market election, and taxation of securities lending agreements. These tax applications would be especially valuable when paired with other measures mentioned above.

Wash Sales and Constructive Sales

A wash sale occurs when a taxpayer sells a security at a loss, then buys a substantially identical security within 30 days. Current law prohibits claiming such losses for securities.

Applying the wash sale rule for securities investing to digital assets would be a commonsense way to prevent industry participants from abusing the system through tax loss harvesting. Both leading digital asset tax proposals currently introduced, authored by Senator Cynthia Lummis (R-WY) in the Senate and Representatives Max Miller (R-OH) and Steven Horsford (D-NV) in the House of Representatives, would apply wash sale rules to the digital assets industry.

While Congress can apply the wash sale rule as it currently stands to digital assets wholesale, there are some considerations to keep in mind. Industry experts are [raising concerns](#) that the current definition of "substantially identical" is inadequate for digital assets. For example, it is unclear whether a token and its "wrapped" version, which is essentially the same asset reformatted for a different blockchain, would qualify as substantially identical. The IRS would need to issue extensive regulations to clarify what digital assets count as substantially identical to each other. This would then require taxpayers to track transactions across multiple wallets, blockchains, and investment accounts to ensure that they are not inadvertently violating this rule.

Both leading proposals would also apply constructive sale rules to digital assets, which stop taxpayers from using workarounds that effectively lock in a gain without triggering a tax bill. Applying both rules would align digital asset tax treatment more closely with that of traditional securities, while shutting down the most obvious avenues for abuse.

Mark-to-Market Election

Extending the existing mark-to-market tax election to digital assets would simplify tax reporting while protecting tax revenue. Under current law, professional securities dealers are required to use mark-to-market accounting, and active traders are allowed to opt in. Rather than calculating gains and losses for each individual trade, mark-to-market treats a trader's entire portfolio as if it were sold at year-end at market value, reporting the total gain or loss.

This pairs well with the wash sale rule, which prevents taxpayers from selling an asset at a loss and immediately repurchasing it solely for tax purposes. For active traders routinely buying and selling the same assets, mark-to-market makes the wash sale rule largely unnecessary. Since all gains and losses are recognized at year-end, there is no opportunity to manufacture artificial losses.

Taxation of Securities Lending Arrangements

Clarifying that lending digital assets does not constitute a taxable event is another commonsense reform. Traditional securities lending, where an investor lends stocks or bonds to another party, is not treated as a taxable sale. The lender retains economic ownership and only incurs a tax liability when the lending position is closed.

Digital asset lending operates similarly, especially through Decentralized Finance (DeFi) protocols. DeFi has grown substantially with a market size estimated at over [\\$200 billion](#), typically involving digital assets lent to provide liquidity for trading. Taxing these transactions as sales would impose a significant burden on ordinary DeFi activity, discourage participation, and put American innovators at a disadvantage.

Conclusion

Congressional inaction has left taxpayers and the IRS to navigate a complex system developed over a decade through patchwork guidance. The consequences of this failure are more apparent now, with the recent conclusion of the first tax season in which digital asset exchanges were required to report comprehensively on users' transactions for tax purposes.

Proposals introduced in Congress so far represent thoughtful attempts to address these issues, yet challenges remain. Taxpayers would be well served if legislation succeeds in reducing the immense amount of complexity they currently face via policies that address the unique circumstances of digital assets and blockchain technology. While policymakers learn more about this industry, it is critical to avoid hamstringing innovation by placing revenue goals above the need to create a sensible tax framework that encourages further growth.



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