**TESTIMONY OF**

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**BEFORE THE**

**United States Senate Committee on Finance**

**Examining the Taxation of Digital Assets**

**October 1, 2025**

Chairman Crapo, Ranking Member Wyden, and Members of the Committee:

Thank you for the opportunity to testify today. My name is Jason Somensatto, and I am the Director of Policy at Coin Center, an independent nonprofit research and advocacy center focused on the public policy issues facing cryptocurrency and decentralized computing technologies. Since our founding in 2014, Coin Center has worked to ensure that public policy protects the rights of individuals to build, use, and benefit from open blockchain networks. We are not a trade association and we do not represent any particular industry, company, or network. We engage in research, education, and advocacy to inform policymakers and the public about how best to approach these new tools in a way that upholds constitutional principles, safeguards civil liberties, and fosters innovation.

Coin Center has long called for sensible and fair tax policy for cryptocurrencies that recognizes the novel manner in which these assets are created and used. Americans across the country are increasingly innovating with this technology and leveraging cryptocurrencies for a growing number of use-cases. Yet the tax treatment of these activities is often uncertain, impractical, and in some cases fundamentally misaligned with long-established principles of tax law. Our goal is not to seek special treatment for cryptocurrency transactions, but rather to ensure they are taxed in a manner consistent with how comparable transactions are treated under the law. This hearing presents an important opportunity to begin addressing the current obstacles to that equal treatment.

We greatly appreciate the Committee's interest in learning more about the crypto ecosystem and where confusion or friction may exist with respect to tax policy. In my testimony today, I will provide a general overview of how cryptocurrencies work and are used in practice. I will then describe the current state of federal tax policy as it applies to these assets and where that policy can be improved. Finally, I will identify areas where Congress may be able to modernize the tax code in a way that promotes fairness, encourages compliance, and upholds core legal principles.

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## Understanding Cryptocurrencies and Their Use Cases

In simplest terms, cryptocurrency networks allow individuals to transfer value directly to others anywhere in the world, without needing to rely on a trusted third party to facilitate the transaction. Since the introduction of Bitcoin in 2009, millions of people around the world—including millions of U.S. taxpayers—have chosen to participate in these networks in a variety of ways: sending peer-to-peer payments, earning new cryptocurrency through network participation, or experimenting with programmable applications that enable new forms of financial and non-financial transactions.

### A. How do cryptocurrency networks work?

We will get to the tax implications of this participation, but first it is important to understand the unique manner in which these systems function.[1] The best way to do that is to start with Bitcoin, the first and most widely recognized cryptocurrency network.

At a fundamental level, Bitcoin is just software that anyone can choose to run on their computer. When users run this software, their devices connect to a global network of others running the same code. This decentralized network enables users to send and receive payments in bitcoin with other network participants without the need for a bank or other financial intermediary.

To ensure all participants agree on the validity of transactions, the network relies on a validation process called mining.[2] Miners are just users who compete to add new "blocks" of verified transactions to a shared public ledger known as the blockchain. More precisely, miners compete to solve computationally intensive puzzles; the first miner to succeed earns the right

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[1] *See* Jerry Brito, "What are Bitcoin and Cryptocurrencies?" *Coin Center*, Jan. 1, 2015, https://www.coincenter.org/education/blockchain-101/what-are-bitcoin-and-cryptocurrencies/.

[2] *See* Peter Van Valkenburgh, "What is Bitcoin mining, and why is it necessary?" *Coin Center*, Dec. 15, 2014, https://www.coincenter.org/education/advanced-topics/mining/.

to create the next block and is rewarded with the ability to create new bitcoins that she may claim for herself. This mechanism is central to how Bitcoin functions without a central authority: rather than relying on a trusted intermediary, the protocol uses economic incentives in the form of newly minted bitcoins to coordinate a decentralized group of participants to verify transactions and secure the network. The result is a peer-to-peer payment system where users are able to come to agreement over a shared ledger of transactions.

The principles that underlie Bitcoin have since been adapted and expanded in the form of thousands of other cryptocurrency networks, each seeking to support different use cases or improve on the original concepts introduced by Bitcoin.[3] For example, Ethereum, another widely used network, was explicitly designed to do more than just create and record transfers of the network's native tokens. Whereas Bitcoin enables users to come to agreement over a list of bitcoin transactions, Ethereum enables users to come to agreement over arbitrarily complex computer programs called "smart contracts."[4] These smart contracts allow users to create and exchange not only currency-like tokens but also unique digital assets, such as identity credentials, certificates of authenticity, or collectible items.

Ethereum, like many newer cryptocurrency networks, also relies on incentivizing users (generally referred to as "validators") to maintain the network but uses a different consensus mechanism known as proof of stake.[5] Unlike Bitcoin's proof-of-work system, where validators expend energy to solve computationally-intensive puzzles, validators in a proof of stake protocol compete based on the amount of cryptocurrency they are willing to "stake" as collateral. As with Bitcoin, these validators take turns proposing and confirming new blocks of transactions, and create new tokens for themselves when they are successful.

### B. What are cryptocurrencies used for?

It is fair to ask what this complex technology infrastructure is useful for. Although there may not yet be a mass-consumer application as ubiquitous as email or social media, the real-world applications of cryptocurrency continue to expand in ways that are both practical and socially meaningful.

At the most basic level, these networks enable direct digital payments without the need for a bank or payment processor. This functionality is critical for people around the world who lack

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[3] *See* Peter Van Valkenburgh, "What's a blockchain, anyway?" *Coin Center*, Apr. 25, 2017, https://www.coincenter.org/education/blockchain-101/whats-a-blockchain/.
[4] *See* Vitalik Buterin, "Ethereum," *Coin Center*, Mar. 9, 2016, https://www.coincenter.org/education/key-concepts/ethereum/.
[5] *See* Peter Van Valkenburgh, "What is 'staking'?" *Coin Center*, Jan. 24, 2022, https://www.coincenter.org/education/advanced-topics/what-is-staking/.

access to traditional financial services or who face censorship or restrictions in using those services. For example, during periods of political unrest in countries like Belarus and Nigeria, activists relied on Bitcoin to receive donations when local banks refused to serve them.[6]

Cryptocurrencies also can provide a secure way for individuals to store value, particularly in jurisdictions where inflation or government expropriation undermines confidence in national currencies. In places like Venezuela, individuals have turned to crypto to preserve their savings and avoid having their wealth eroded or seized.[7]

The flexibility of smart contract networks have enabled developers, creators, and entrepreneurs to build applications beyond those for sending and storing cryptocurrencies. These include marketplaces for digital art and collectibles,[8] tools for issuing verifiable credentials for digital identification,[9] and infrastructure for novel financial services that operate without traditional intermediaries[10]. In each case, these applications can be deployed and used without the need for centralized control, and participants who help maintain the underlying network are rewarded with newly created digital assets according to transparent, protocol-defined rules.

Dollar-backed stablecoins also represent a rapidly growing segment of the cryptocurrency ecosystem.[11] These are digital tokens issued on platforms like Ethereum that maintain a fixed value relative to the U.S. dollar and are widely used for payments, savings, and trading. Their popularity stems from their ability to combine the stability of the dollar with the speed, programmability, and accessibility of blockchain networks. Stablecoins are now used by individuals and businesses around the world to transfer dollars quickly and at low cost, often across borders and without traditional banking infrastructure.

It is true that a large percentage of the crypto market today involves individuals purchasing cryptocurrencies for investment purposes or to engage in speculative trading. However, for the purposes of evaluating appropriate tax treatment, it is important to understand that the

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[6] Robert Huang, "Dissidents Are Turning To Cryptocurrency As Protests Mount Around The World," *Forbes*, Oct. 19, 2020, https://www.forbes.com/sites/rogerhuang/2020/10/19/dissidents-are-turning-to-cryptocurrency-as-protests-mount-around-the-world/.

[7] John Detrixhe, "Bitcoin trading in Venezuela is skyrocketing amid 14,000% inflation," *Quartz*, Jul. 20, 2022, https://qz.com/1300832/bitcoin-trading-in-venezuela-is-skyrocketing-amid-14000-inflation.

[8] *See* https://www.azuki.com/about.

[9] *See* Aleo, "Introducing zPass: Aleo's Pioneering Step Toward Privacy-Preserving Digital Identity," Oct. 2023, https://aleo.org/post/introducing-zpass-aleos-pioneering-step-toward-privacy-preserving-digital.

[10] *See* Will Warren, "Decentralized Exchange," *Coin Center*, Oct. 18, 2018, https://www.coincenter.org/education/key-concepts/decentralized-exchange/.

[11] *See* Chainalysis, "Stablecoins 101: Behind crypto's most popular asset," Dec. 11, 2024, https://www.chainalysis.com/blog/stablecoins-most-popular-asset/.

underlying technology does not demand speculation as its primary use case. In practice, many developers and users are leveraging cryptocurrency networks for a wide range of functions that extend far beyond trading. Cryptocurrencies ultimately represent a new layer of internet infrastructure—one that empowers individuals, reduces reliance on intermediaries, and enables forms of economic and civic participation that were previously impossible.

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## The Current Tax Framework for Cryptocurrencies

### A. Property Classification and Capital Gains

Since 2014, the IRS has generally treated most cryptocurrencies—which it refers to as "virtual currency"—as property.[12] This means that any sale, exchange, or use of cryptocurrency can trigger a capital gain or loss. Every time a person makes a transaction using cryptocurrency, they must calculate the difference between their cost basis and the fair market value of the asset at the time of the transaction. This rule applies regardless of the size or nature of the transaction.

For example, a user who uses a dollar-backed stablecoin to buy a cup of coffee would face a surprisingly complex tax obligation. While stablecoins are designed to maintain parity with the U.S. dollar, they are still treated as property for tax purposes. As such, the user must determine the market value of the stablecoin at both the time it was acquired and the time it was spent—even though any gain or loss is likely to be just a fraction of a cent. Moreover, because blockchain transactions typically require users to pay small fees in the native asset of the network—such as ETH on Ethereum—the user must also calculate a capital gain or loss on that fee payment. Even if the fee is just a few cents worth of ETH, and even if the user is otherwise engaged in non-financial activities on the network, it must be tracked and reported.

These examples highlight a broader issue: nearly all activity on a crypto network involves a transaction that may be deemed a taxable event under current law. Imagine if sending an email or text message triggered a tax reporting requirement. That is the compliance burden currently imposed on everyday users of these networks. While large institutions may be able to manage these calculations through software and specialized accounting teams, small individual filers are left to navigate a system that is both unintuitive and unforgiving. For many taxpayers, this has made crypto tax compliance one of the most confusing and burdensome aspects of using the technology.

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[12] Internal Revenue Service, "IRS Virtual Currency Guidance," IRS Notice 2014-21, April. 14, 2014, https://www.irs.gov/pub/irs-drop/n-14-21.pdf.

A very similar problem arises in the context of US taxpayers transacting in foreign currencies. If you buy euros in preparation for a trip to France, and if the value of the euro increases against the dollar, then buying a croissant creates a taxable gain. Recognizing the absurdity of that tax treatment, Congress, in 1997, saw fit to create a *de minimis* carve-out for such personal transactions in foreign currency.[13] Cryptocurrency did not exist at the time and so was not included in that commonsense carveout. As I will detail later, Congress should do the same for cryptocurrencies today. That policy is good for innovation and it is also like-for-like treatment with an analogous traditional financial transaction in foreign currency.

### B. Block Rewards Treated as Gross Income

As explained above, a core element of all cryptocurrency networks is that validators (i.e., miners and stakers) are incentivized to support the network because they are allowed to create new cryptocurrency according to the rules embedded in the protocol's computer code. Cryptocurrencies acquired through this process are generally labeled as block rewards or mining or staking rewards depending on the underlying consensus mechanism. The IRS's Revenue Ruling 2023-14 takes the position that these block rewards are gross income upon "receipt," taxable at their fair market value when the taxpayer obtains dominion and control.[14] This view mirrors the earlier position taken in IRS Notice 2014-21 for proof-of-work mining.[15]

This characterization is problematic from a policy and legal perspective.

First, it mischaracterizes the nature of block rewards. These tokens are not "received" from another party. Rather, miners and stakers create these new tokens according to the rules set in the software. In this way, block rewards are analogous to other forms of property created by individuals, such as farmers growing corn or authors writing novels. Just as in those circumstances, the creation of new property is not a taxable event under US tax law.

Taxing block rewards at creation treats the act of minting a new token as if it were a wage or commission, when in reality there is no one paying or compensating the validator. The earth does not "pay" a farmer when new ears of corn grow on the stalks in her field; the farmer's crop is something new she made with her labor. The same is true of a miner creating new bitcoins. The IRS guidance erroneously creates a double standard for the creation of digital and physical commodities resulting in tax treatment that is anti-innovation and has no basis in law.

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[13] *See* Taxpayer Relief Act of 1997, Pub. L. No. 105-34, § 1002, 111 Stat. 788, 903 (1997); 26 U.S.C. § 988(e)(2)(B).
[14] Internal Revenue Service, Rev. Rule 23-14, 2023-33 I.R.B. 485, https://www.irs.gov/pub/irs-drop/rr-23-14.pdf.
[15] *See* Internal Revenue Service, "IRS Virtual Currency Guidance," IRS Notice 2014-21, April. 14, 2014, https://www.irs.gov/pub/irs-drop/n-14-21.pdf.

Second, taxing block rewards upon creation leads to significant overstatement of economic gain and therefore, overtaxation. As detailed in Coin Center's report, "Dilution and Its Discontents," this method fails to account for the dilution that occurs when new tokens are created.[16] The result is taxation on nominal value that may not reflect any real economic gain. A taxpayer may end up owing taxes on tokens that later depreciate in value or that were only received as an offset to dilution.

### C. Reporting Mandates and Privacy Risks

In addition to substantive issues with how income is defined, recent changes to IRS reporting requirements jeopardize the privacy rights and constitutional rights of American cryptocurrency users. The Infrastructure Investment and Jobs Act enacted in 2021 included two provisions that significantly expanded information reporting obligations in the context of cryptocurrency. First, it amended Section 6045 of the Internal Revenue Code to expand the definition of a "broker" to include any person who "effectuates transfers" of digital assets.[17] Second, the Act applied the cash transaction reporting requirements of Section 6050I to digital assets.[18] Under this provision, anyone who receives more than $10,000 in digital assets in the course of a trade or business is required to collect, verify, and report the name, address, and taxpayer identification number of the sender to the IRS.

With respect to the expanded broker definition, there was significant concern that the language was broad enough to potentially include miners, validators, software developers, and other non-custodial participants who do not have customers or access to the personal information required for tax reporting. And indeed, the IRS issued regulations in 2024 that explicitly found that certain non-custodial services should be included in the expanded broker definition, effectively imposing 1099-B reporting obligations on entities that are not traditional intermediaries and that lacked the practical ability to comply.[19] Earlier this year, an overwhelmingly bipartisan majority of Congress rightfully rescinded the IRS regulation through legislation introduced by Rep. Carey invoking the Congressional Review Act.[20]

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[16] Mattia Landoni, et al., "Dilution and its discontents: Quantifying the overtaxation of block rewards," *Coin Center*, Aug. 2020, https://www.coincenter.org/dilution-and-its-discontents-quantifying-the-overtaxation-of-block-rewards/.

[17] Infrastructure Investment and Jobs Act, Pub. L. No. 117-58, § 80601, 135 Stat. 429, 1339 (2021)

[18] *Id.* § 80603.

[19] *See* Peter Van Valkenburgh, "The IRS' midnight broker rule still targets software providers with unfit and unconstitutional KYC requirements," *Coin Center*, Dec. 27, 2024, https://www.coincenter.org/the-irs-midnight-broker-rule-still-targets-software-providers-with-unfit-and-unconstitutional-kyc-requirements/.

[20] Rep. Mike Carey, "Carey Bill to Eliminate Burdensome IRS DeFi Crypto Broker Rule Signed into Law by President Trump," Apr. 10, 2025,

However, the new requirements of Section 6050I, originally intended for physical cash, now apply to digital peer-to-peer transactions. The result is that individuals may be obligated to report detailed personal information about counterparties they may not know, in a way that raises significant concerns about privacy, speech rights, and self-incrimination. Failure to comply can lead to felony charges, even if there was no intent to evade taxes. Reporting under Section 6050I is distinct from existing customer identification and anti-money laundering regulations because it is an obligation that falls upon ordinary persons rather than only regulated financial institutions. Asking ordinary Americans to collect sensitive information about other ordinary Americans who pay them in cryptocurrency and asking them to report that information to the government without a warrant or other judicial oversight plainly contradicts our Fourth Amendment privacy rights.

Coin Center has challenged the 6050I provision in federal court, arguing that it compels warrantless disclosures of associational and transactional data, in violation of the First and Fourth Amendments.[21] A bipartisan group in the last Congress introduced legislation to address these privacy violations, and this committee should consider repealing the application of 6050I to cryptocurrency transactions.

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## The Case for Congressional Action on Crypto Tax Policy

Beyond specific areas of concern, it is essential to emphasize that tax policy is as critical to the future of crypto development in the United States as the current market structure legislative efforts. An overly complex or misaligned tax code creates friction not just for sophisticated traders, but for everyday users, small developers, and new market entrants—those least likely to have access to compliance professionals or sophisticated accounting tools. Sensible tax reform is a necessary component of any policy agenda that seeks to foster domestic innovation while protecting consumers and upholding the rule of law. This stands in contrast to jurisdictions like China, where the government is actively investing in blockchain infrastructure but doing so through closed, authoritarian models that lack strong civil liberties protections. The U.S. has an opportunity to lead by offering a regulatory environment that encourages open innovation while remaining grounded in democratic values.

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https://carey.house.gov/2025/04/10/carey-bill-to-eliminate-burdensome-irs-defi-crypto-broker-rule-signed-into-law-by-president-trump/.

[21] Jerry Brito, et al., "Coin Center has filed a court challenge against the Treasury Dept. over unconstitutional financial surveillance," *Coin Center,* Jun. 11, 2022, https://www.coincenter.org/coin-center-has-filed-a-court-challenge-against-the-treasury-dept-over-unconstitutional-financial-surveillance/.

Permissionless blockchain technology is not going away; indeed there is increasing demand to transition significant segments of the global economy to blockchains for underlying infrastructure just as so much commerce moved onto the internet from the 1990s to today. Small early advantages in the development and provision of these technologies will be magnified as the scale of their usage expands. Policy decisions that may seem marginal today could well determine whether Americans of the future are using underlying financial infrastructure that's built and operated here in America or else built and controlled abroad. We should not, therefore, underestimate the long term costs of today's bad tax policies. Those costs may ultimately be measured in loss of global competitiveness or even compromises to our national security. Whenever an American Bitcoin miner or Ethereum staker suffers unnecessarily complex tax treatment, whenever an American cryptocurrency user faces accounting headaches or invasive surveillance obligations, we are not merely inconveniencing a handful of today's nerds and early adopters, we are possibly ceeding the future of financial infrastructure to rival nations.

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## Recommendations

The current approach to digital asset taxation creates confusion, compliance risk, and practical challenges for taxpayers. Many digital asset users interact with decentralized protocols, self-custody solutions, and non-custodial applications that do not generate the kind of records or counterparties that traditional tax reporting relies upon. Determining cost basis across multiple wallets, tracking lot selection, and accounting for microtransactions are extremely difficult without purpose-built tools.

Congress can take several meaningful steps to reduce these burdens and bring clarity to the tax treatment of digital assets.

**First**, Congress should enact a de minimis exemption for low-value personal transactions. Coin Center has long championed legislation, which would exclude gains on transactions below a certain dollar threshold, such as the "Virtual Currency Tax Fairness Act" and a recently introduced bill from Senator Lummis.[22] This modest reform would align crypto transactions with the existing rules for foreign currency transactions and would enable everyday use of digital assets without sacrificing tax compliance.

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[22] Virtual Currency Tax Fairness Act, H.R. 8350, 118th Cong. (2023); S. 2207, 119th Cong. (2025); *see also* Sen. Cynthia Lummis, "Lummis Unveils Digital Asset Tax Legislation," Jul. 3, 2025, https://www.lummis.senate.gov/press-releases/lummis-unveils-digital-asset-tax-legislation/.

**Second**, Congress should help clarify that block rewards should be treated in line with existing tax rules applicable to newly created property such as newly grown crops. For example, the "Providing Tax Clarity for Digital Assets Act" from last Congress would have rightfully specified that no income results when block rewards are acquired and would only be taxed as income upon disposition.[23]

In terms of how to characterize these block rewards, Congress should defer to longstanding tax principles that differentiate between capital and ordinary assets based on the individual taxpayer. For most everyday cryptocurrency users, who are central to Coin Center's mission, that will mean that block rewards are treated as a capital asset upon disposition.

As Congress considers advancing a legislative clarification, we also encourage the executive branch to recognize the proper tax treatment under existing law and promptly rescind its earlier guidance. Coin Center is supporting a challenge to the IRS's current position that block rewards must be taxed as income at the time that they are created.[24]

**Third**, Congress should revisit the Infrastructure Act's reporting provisions. The provision applying section 6050I to digital asset transactions should ideally be repealed or at least amended to exclude from criminal liability those who fail to report information they cannot obtain. The law, originally designed for in-person cash transactions, now imposes felony penalties on anyone who receives digital assets worth more than $10,000 in the course of a trade or business without reporting detailed personal information about the sender. This requirement can apply even when the recipient has no prior relationship with the sender or practical means of collecting the required information—such as in a peer-to-peer payment, through a smart contract, or from an anonymous donor. In such cases, users may be threatened with prosecution for failing to comply with a law that is, in a decentralized setting, often functionally impossible to follow.

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## Conclusion

The promise of cryptocurrency networks lies in their ability to empower individuals and enable open innovation. But for that promise to be realized in the United States, we must ensure that the tax code does not place unnecessary or unfair burdens on cryptocurrency users and allows for practical and achievable compliance. By enacting targeted, reasonable reforms, Congress

[23] *See* For further explanation on this approach and proposed legislative language, we recommend the following article: Taxation of Staking Rewards
[24] *Jarrett v. United States*, No. 3:24-cv-01209 (M.D. Tenn. Oct. 10, 2024)

can ensure that users are taxed fairly, innovators are not discouraged, and participation in crypto networks remains accessible to ordinary Americans.

I appreciate the Committee's leadership on this issue and look forward to supporting your efforts as they continue. Thank you.