coinbase

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Good morning, Chairman Crapo, Ranking Member Wyden, and members of the Committee. My name is Lawrence Zlatkin and I serve as Vice President of Tax at Coinbase. Coinbase operates the largest and most trusted platform in the United States for customers to buy, sell, hold, and manage digital assets. We are committed to fostering a compliant and robust digital asset ecosystem.

For nearly 25 years before I joined Coinbase, I was a tax leader at GE, working to ensure one of the world's most sophisticated financial and industrial firms operated with efficiency and integrity as it confronted technical tax law, M&A, global tax optimization, and tax compliance questions. It was there I learned a basic but fundamental lesson: in finance and tax law, clarity is everything. When rules are clear, capital flows, innovation accelerates, and taxpayers comply. When they are vague, activity slows, mistakes multiply, and business moves elsewhere.

That perspective is what brings me here today. Digital assets represent one of the most important financial innovations of our lifetime — a market that has already grown to more than *$4 trillion* globally. This technology is no longer a niche experiment, it's a key part of our global economy. Yet, our tax rules are stuck in the past. We are forcing 21st-century financial innovation into 20th-century tax laws, with results that are both predictable and counterproductive: massive confusion for taxpayers, unnecessary burdens for the IRS, and a flight of innovation and capital away from the United States.

In my testimony today, I will outline the most urgent tax issues facing the digital asset ecosystem — ranging from stablecoin neutrality, to lending and staking, to investment structures, to the need for a sensible de minimis exemption for everyday payments. I will also highlight the tools that Treasury and the IRS already possess to provide administrative clarity today, and the areas where Congress must act legislatively to create durable, bipartisan rules. Finally, I want to emphasize that digital assets are not just a challenge for tax administration — they are also an opportunity. Blockchain technology, if embraced constructively, can be a powerful tool for improving tax integrity, transparency, and compliance. Distributed ledgers create transparent, traceable, and real-time records of transactions. With the right framework, that data could be used to reduce underreporting, automate information sharing, and strengthen taxpayer verification.

Coinbase has been deeply engaged in advancing thoughtful crypto tax policy. We drafted a response to the 2023 bipartisan call from this Committee for crypto tax comments, submitted multiple IRS comment letters on broker tax reporting, testified at the IRS hearing on broker tax reporting, and participated in a House Ways and Means Committee panel on crypto taxation. Additionally, we have contributed to panels hosted by the DC Bar, the New York State Bar Association, the American Bar Association, the University of Chicago Federal Tax Conference, and the Practicing Law Institute, and actively participated in various tax-focused working groups. We also engage globally with tax regulators and the OECD. These efforts underscore Coinbase's commitment to collaborating with policymakers and stakeholders to shape clear and effective tax frameworks for the crypto industry.

Why Crypto Requires Tailored Tax Rules

Rather than trying to fit this new technology into a 20th-century box, we should design rules that allow it to strengthen our 21st-century tax system. When the IRS first addressed the taxation of digital assets more than a decade ago, it did so through Notice 2014-21, which concluded that cryptocurrency should be treated as property. At the time, that was a sensible first step. But in 2025, treating crypto simply as "property" is no longer sufficient. The digital asset ecosystem has grown into a $4 trillion global economy, encompassing stablecoins used for payments, proof-of-stake networks that secure entire blockchains, decentralized finance protocols, tokenized securities, and investment products now available to mainstream investors.

The problem is that crypto does not fit neatly into the traditional categories of the Internal Revenue Code of 1986, as amended (the "Code"). Trying to stretch old tax definitions into this new world leaves taxpayers, regulators, and markets with answers that are incomplete at best, and counterproductive at worst.

The lack of tailored rules has real consequences:

- **Inconsistent Tax Treatment of Identical Transactions.**
  Imagine two taxpayers who each stake tokens on the same blockchain network. One uses a U.S. validator, while the other routes through an offshore pool. Because the sourcing rules are unclear, one taxpayer may be required to treat the staking rewards as U.S.-source income subject to U.S. withholding tax, while the other could treat the rewards as foreign-source income not subject to U.S. withholding tax. The underlying economic transaction is identical, but the tax consequences diverge sharply. That inconsistency erodes confidence and increases the risk of costly disputes with the IRS.

- **Unnecessary Friction in Capital Markets.**
  Consider an institutional investor who wants to lend digital assets to another market participant to improve liquidity. If those assets were securities, the transaction could be structured tax-free under well-established securities lending rules. But because the Code has never been updated to address lending digital assets, that same transaction may trigger recognition of taxable gain. The result: the loan is either priced inefficiently, or it doesn't happen at all. That means less liquidity in U.S. markets and fewer investment opportunities for U.S. firms.

- **Everyday Consumer Burdens.**
  Picture an ordinary American who uses stablecoins to buy a $4 cup of coffee on the way to work. Because digital assets are treated as property, that $4 transaction triggers a taxable event that must be tracked and reported. Multiply that across thousands of small transactions, and the compliance burden quickly becomes unmanageable — discouraging mainstream adoption of efficient new payment tools. And for what? There is no gain or loss with stablecoins. The payments use case contemplated in the bipartisan GENIUS Act can't scale under these rules.

- **Migration of Innovation and Tax Base Offshore.**
  In some jurisdictions, regulators have already provided clear rules for staking, trading, and digital asset investment funds. As a result, companies are moving operations — and taxable income — abroad. For example, a business that wants to offer a staking-enabled investment product may choose to domicile it outside of the U.S. because non-U.S. tax authorities have provided explicit guidance. That is capital formation, job creation, and tax revenue lost to the United States.

Top 10 Issues For Focus

The problems described below are not theoretical. They are specific and they are solvable. In my testimony, I will address the ten most urgent tax issues that need the attention of policymakers. Taken together, these issues provide a clear roadmap for creating a modern, competitive tax framework.

1. Broker Reporting and Stablecoin Neutrality

Congress took an important step in 2021 by extending tax reporting to cryptocurrency brokers through the Infrastructure Investment and Jobs Act (IIJA). Information reporting is a bedrock of our tax system, but it only works when the IRS receives data it can actually use. Applied carelessly to digital assets, reporting risks producing a flood of unnecessary paperwork without improving compliance, or worse, encouraging non-compliance.

The final broker reporting regulations issued in July 2024 were narrower than many feared. They focus on custodial brokers and centralized exchanges, with a phased rollout beginning this year. I want to commend the Treasury Department and members of this Committee for responding to taxpayer comments on this issue, including: phasing the implementation of the rules, focus on centralized intermediaries, special rules for stablecoins, and limits on decentralized finance. Bipartisan engagement from members of Congress reinforced these points.

But even with those improvements, the scale of required digital asset tax reporting is staggering. **Centralized exchanges will still be required to issue billions of Form 1099-DAs. Billions.** The IRS must now build systems to ingest those forms — many of which will report transactions that are not taxable in the first place. For instance, a dollar-backed stablecoin is designed to hold its value. Taxpayers shouldn't have to file a tax form just because you used a stablecoin to buy a cup of coffee. That runs directly counter to the goals of the GENIUS Act, which recognized that payment stablecoins are a legitimate financial innovation that should be usable in everyday commerce. If Americans cannot use them for payments without generating useless forms, the promise of the GENIUS Act will go unfulfilled.

There is also a privacy concern. Requiring tax reporting of stablecoin transactions means turning over to the government a detailed log of ordinary consumer purchases. That is not tax enforcement; that is surveillance. The American people should not have to give up their privacy to buy a cup of coffee with an asset specifically designed not to produce gain or loss.

For these reasons, Treasury should pause before layering on new obligations, and actively revisit the ones already imposed.

This is where Congress must lead. The GENIUS Act showed how bipartisan compromise can set guardrails without stifling innovation. Congress should take the same approach here by refining the reporting requirements under the IIJA to:

- Exclude stablecoins and low-value transactions from reporting, to enable the payments use case envisioned in the GENIUS Act;
- Limit the definition of "broker" to true intermediaries, not software developers or participants in decentralized systems; and
- Except the application of broker reporting to decentralized finance or to non-U.S. participants through the Crypto Asset Reporting Framework (CARF). CARF would effectively import global rules into our system for digital assets which Congress deliberately excluded in Traditional Finance, all before the IRS has proven it can manage the billions of forms already required. Implementing CARF in the U.S. without involvement from Congress would be a mistake.

Treasury can also act immediately with a Notice or Revenue Procedure to exempt stablecoins, delay unnecessary reporting, and avoid premature adoption of CARF.

Reporting rules should give the IRS useful information — not just more information — while protecting consumers' ability to use stablecoins for everyday payments without sacrificing their privacy.

2. Digital Asset Lending and the Need for Parity with Traditional Securities Lending

Liquidity is the lifeblood of every financial market. In the digital asset economy, lending takes two major forms: large-scale institutional loans of digital assets between firms, and pooled collateralized lending, where assets from many users are combined and lent against to generate liquidity. Together, these markets account for billions of dollars of activity today, and they are essential to supporting efficient, well-functioning markets.

Yet unlike securities lending, which benefits from a well-established safe harbor regime under Code §1058, digital asset loans exist in a gray area. The tax rules do not say clearly whether lending digital assets is a non-taxable transfer or a taxable disposition. The result is a chilling effect on liquidity: transactions that should be routine carry the risk of triggering taxable gain.

An example: Suppose an institutional investor lends $100 million worth of bitcoin to another market participant for six months with an ability to require repayment upon demand of the lender. Economically, the lender has not sold bitcoin, nor realized a gain — they've simply provided liquidity, just as if they had loaned securities. But absent clear rules, that loan could be treated as a taxable sale, forcing the investor to recognize gain, pay tax, and then re-establish basis when the loan ends. The result is a tax penalty for providing liquidity.

This is bad policy and bad economics. Taxing digital asset loans as sales discourages liquidity and makes U.S. markets less attractive than foreign alternatives and capital could migrate elsewhere. Congress responded to this same issue in the securities lending context by enacting Code §1058 in 1978 and should respond similarly for digital asset lending.

Administrative Tools. The IRS could issue a Revenue Ruling extending the principles of Code §1058 to digital assets. It could also provide Private Letter Rulings confirming that well-structured loans are not taxable dispositions. That would give immediate relief and signal the IRS's intent to treat digital asset loans on a par with securities loans.

Legislative Tools. Congress can and should amend Code §1058 to explicitly include "digital assets" alongside securities. A simple statutory update would modernize the law, align tax treatment with economic reality, and give U.S. markets the certainty they need to thrive.

The principle here is straightforward: a loan is not a taxable disposition. Extending that principle to digital assets will support liquidity and tax neutrality, reduce volatility, and keep capital — and tax revenue — in the United States.

3. Taxation and Source of Staking Rewards

Staking is at the heart of modern blockchain networks. In a proof-of-stake consensus mechanism, transactions are validated by users who commit, or "stake," their crypto as collateral in exchange for the chance to earn additional tokens as rewards. It is a system that secures the blockchain network while rewarding participants for their role in maintaining integrity. Importantly, because proof-of-stake mechanisms are automated by software and require minimal human intervention or physical infrastructure, they are far more energy efficient and environmentally sustainable than proof-of-work mechanisms which require substantial investment in human capital and physical infrastructure.

The tax issue is that the rules for sourcing staking rewards are unclear. Some have argued that rewards are sourced to the location of the validator. If that view prevails, a non-U.S. person staking through a U.S. validator would be treated as earning U.S.-source income — and subject to U.S. withholding tax. That interpretation would be a powerful incentive for validators to keep validator activity offshore, as many are currently doing out of an abundance of caution.

An example: Imagine a foreign investor who stakes tokens through a U.S. validator. If staking rewards are treated as U.S.-source, that investor will be subject to U.S. withholding taxes. But if that same investor simply routes through a foreign validator, the income could be treated as foreign-source, whereby no U.S. withholding taxes would apply. The economic activity is identical — the only difference is geography of validators. This uncertainty pushes investors to avoid U.S. validators entirely.

That outcome would be disastrous for U.S. competitiveness. Staking infrastructure is highly mobile and automated. If our rules penalize foreign investors who stake here, validator service providers will organize their operations abroad, along with the jobs, innovation, and tax revenue that follow them.

The fix is straightforward. The character of staking rewards should not vary depending on whether a user stakes directly, stakes through a pool, or chooses a validator in one jurisdiction over another. *The source should be determined based on the residence of the recipient*, not the location of the validator. That approach would align staking with the sourcing rules that apply to derivatives contracts and most other financial instruments, and it would remove a powerful incentive for staking to leave the United States.

In addition to the source of staking rewards, the timing of taxation of staking rewards remains an area of significant uncertainty, underscoring the urgent need for clear guidance. While the IRS has indicated in Notice 2014-21 that income from mining is taxable upon receipt and in Revenue Ruling 2023-14 that staking rewards are taxable when the taxpayer receives such rewards ("gains dominion and control" over the rewards), such guidance includes limited supporting analysis for these technical positions, leaving taxpayers without definitive rules for this emerging area of digital asset activity. This lack of clarity has led to ongoing litigation, such as *Jarrett, et al. v. United States of America*, where taxpayers are challenging the IRS's treatment of staking rewards. Clear and consistent guidance is essential to ensure taxpayers can comply with their obligations while fostering innovation and growth in the digital asset ecosystem.

Administrative Tools. Treasury could issue a Revenue Ruling or Treasury Regulations clarifying that staking rewards are sourced to the residence of the recipient. That would immediately align practice with economic reality.

Legislative Tools. Congress could codify that the source of staking rewards is based on the residence of the recipient, ensuring it cannot be reversed by shifting administrative interpretation. Congress also could codify its view on the timing of staking and mining rewards. Codification would provide long-term certainty and encourage staking businesses to locate in the United States.

The principle is clear: we should not tax foreign investors more harshly just because they choose to use U.S. infrastructure. By clarifying source rules for staking, Congress can remove a needless barrier, support the migration of environmentally sustainable proof-of-stake systems, and help bring this growing business — and its benefits — to the United States.

4. U.S. Trading Safe Harbors for Foreign Investors

Foreign investment is critical to U.S. markets. But under U.S. tax law, a foreign investor who is treated as engaged in a U.S. trade or business is generally subject to U.S. tax on all income "effectively connected" with that business. To attract foreign capital, the Code has long provided safe harbors for U.S. managed securities and commodities trading. These safe harbors exclude trading activity from being treated as a U.S. trade or business — even if a U.S.-based broker or agent executes the trades — and they have successfully encouraged foreign participation in U.S. markets for decades.

No such safe harbor exists for digital asset trading. That omission is not just a gap in the law; it is a competitive disadvantage. Without a safe harbor, foreign investors who trade digital assets through U.S. platforms risk being treated as engaged in a U.S. trade or business, exposing them to potential U.S. taxation. The rational choice for those investors is to avoid U.S. platforms entirely and trade elsewhere.

An example: Imagine a foreign pension fund that wants to allocate a portion of its portfolio to digital assets. If it trades through a U.S.-based investment manager, it could face U.S. taxation. If it trades through a foreign investment manager, it avoids that risk. Faced with that choice, the pension fund will move its trades — and its liquidity — offshore. The U.S. loses out not only on trading activity, but on the broader benefits of attracting global capital.

This problem is fixable, and the model already exists. Just as Congress created securities and commodities safe harbors to facilitate capital formation, it should create a standalone digital asset trading safe harbor. Doing so would bring parity across asset classes and ensure the U.S. remains competitive in attracting foreign capital to its markets.

Legislative Tools. Congress should amend Code §864(b) to add a digital asset trading safe harbor alongside those for securities and commodities. Codification would give permanent certainty, prevent capital flight, and ensure that digital asset trading activity supports U.S. markets.

The principle is clear: we should welcome foreign capital into U.S. digital asset markets, not drive it away. A digital asset trading safe harbor would level the playing field, foster capital formation, and ensure U.S. markets — and the jobs and innovation they support — remain the global standard.

5. UBTI Treatment for Tax-Exempt Investors

Tax-exempt investors such as pensions, retirement funds, university endowments, and foundations play a central role in U.S. capital markets. The Code recognizes this by excluding most passive investment income — like dividends, interest, and capital gains — from Unrelated Business Taxable Income (UBTI). This carve-out allows tax-exempt investors to invest broadly without jeopardizing their tax-exempt status.

But when it comes to digital assets, the tax rules are unclear. In particular, the treatment of staking rewards is uncertain. Some view them as “business” income, potentially swept into UBTI, while others see them as akin to dividends or interest. The absence of clarity discourages tax-exempt investors from participating in staking — one of the most important innovations in digital assets.

An example: Imagine a pension fund that holds a diversified portfolio, including proof-of-stake tokens. If it stakes those tokens to earn rewards, the IRS could view that income as UBTI. That would force the fund to pay tax on activity that is economically equivalent to the passive income carve-out Congress already established. Faced with that risk, many institutions simply abstain — leaving growth opportunities on the table.

The fix is straightforward. Staking rewards should be treated like other passive investment income. The character of the income should not change just because the underlying asset is a digital token rather than a stock or bond.

Administrative Tools. The IRS should issue a Revenue Ruling confirming that staking rewards qualify for the investment income carve-out under Code §512(b). That would immediately bring staking rewards into parity with dividends and interest.

Legislative Tools. Congress should amend Code §512(b) to expressly include staking rewards in the list of excluded income. Codification would provide durable certainty and encourage more long-term, tax-exempt capital to participate in digital asset markets.

The principle is simple: a pension or retirement fund should not be penalized for staking tokens any more than for holding stocks or bonds. Aligning UBTI treatment will attract stable, long-horizon capital into U.S. markets, strengthening both innovation and retirement security.

6. Grantor Trust Rules and Staking in Investment Products

Investment products like exchange-traded products (ETPs) and funds (ETFs) are critical to making digital assets broadly accessible to U.S. and foreign investors. For tax purposes, many of these products are structured as grantor trusts, which allow income to flow through directly to investors without creating a separate tax layer. That structure works well for traditional assets like gold — but it was not designed with digital assets in mind.

The challenge is that grantor trust rules do not clearly accommodate staking or similar blockchain-based activities. Under current law, if a trust engages in staking activity, it risks losing grantor trust status. Similarly, the "qualifying income" exception for publicly traded partnerships under Code §7704 does not explicitly include staking rewards. The result is uncertainty, and uncertainty discourages product innovation in the U.S.

An example: Suppose a U.S.-listed crypto ETP wants to allow investors to share in staking rewards generated by proof-of-stake tokens. Because the tax rules are unclear, that fund may be forced to forego staking altogether or global investors may avoid investing — even though staking is central to the economic value of the asset. Meanwhile, similar products abroad can and do offer staking, making them more attractive to global investors.

That is not just a tax technicality; it is a competitiveness problem. If U.S. financial products cannot include the core features of the underlying assets, investors will look elsewhere, and capital will flow with them.

Administrative Tools. We believe this area is ripe for administrative interim guidance. The IRS should issue interim guidance to allow limited staking activity within grantor trust structures, clarifying that such activity does not destroy pass-through treatment.

Legislative Tools. To provide for longer-term clarity, Congress should amend the grantor trust provisions and the Code §7704 qualifying income exception to expressly include staking rewards. That statutory update would align the rules with the economic reality of proof-of-stake mechanisms and ensure U.S. investors have access to competitive products at home.

The principle here is simple: U.S. and foreign investors should not have to invest outside the United States to access products that reflect the true value of digital assets. By modernizing grantor trust and partnership tax rules, Congress can level the playing field, support innovation in U.S. capital markets, and keep investment opportunities and tax revenues here at home.

7. Mark-to-Market Tax Accounting for Digital Assets

Dealers and traders in securities have long been allowed to elect mark-to-market treatment under Code §475. This rule recognizes that for market participants engaged in daily trading, such as broker dealers or active traders, taxing only realized gains distorts economic reality and creates compliance headaches. Mark-to-market aligns tax with the business model: assets are treated as if sold at year-end, and gains or losses are recognized consistently.

No similar statutory category exists for digital assets. Traders and dealers in crypto must therefore navigate a patchwork of uncertain rules — tracking realized gains across thousands of small trades, managing mismatched basis calculations, and often producing outcomes that diverge sharply from their true economic income.

An example: Consider a U.S. market-making firm that executes hundreds of thousands of crypto trades each year. Under current rules, it must track realized gains and losses on each trade, even though the firm's income is driven by daily price spreads. By year-end, the firm's tax records may bear little resemblance to its financial performance. The absence of a clear mark-to-market election not only creates massive compliance costs but can also lead to artificial tax liabilities.

This puts U.S. trading firms at a disadvantage. Without certainty, many are reluctant to scale operations in the United States, while other jurisdictions are moving faster to accommodate active trading.

Administrative Tools. The IRS should issue a Revenue Ruling clarifying that actively traded digital assets may be treated consistently with securities for purposes of Code §475. That would provide interim relief and signal recognition of the issue.

Legislative Tools. Congress should create a new statutory category under Code §475 expressly covering "digital assets" and related derivatives. Codification would give traders and dealers durable certainty, reduce compliance costs, and encourage market-making activity to remain in the United States.

The principle is clear: our Code should reflect economic reality. Just as traditional finance dealers are subject to mark to market tax accounting, digital asset dealers should be subject to symmetrical rules. Digital asset traders should have the same option as securities and commodities traders to make a mark-to-market election, which would align tax with business, reduce compliance burdens, and keep U.S. markets globally competitive.

8. Wash Sale and Constructive Sale Considerations

The wash sale and constructive sale rules are long-standing features of our Code. They prevent taxpayers from recognizing artificial losses or locking in gains while maintaining the same economic position. In traditional finance, these rules apply to securities and derivatives. In digital assets, however, there is no statutory guidance.

Extending the wash sale and constructive sale rules to crypto is about parity, fairness, and integrity. And the fact that our industry supports this step as part of a comprehensive crypto tax package is proof that we are serious about aligning digital assets with traditional finance.

Applying the wash sale rule to crypto would close that gap. It would remove any perception of special treatment, strengthen compliance, and generate meaningful revenue. JCT has estimated that applying wash sale rules more broadly can raise tens of billions over ten years. Even if digital assets represent only a portion of that, the revenue potential is real — and the policy case is even stronger.

But we also want to be clear on the process. The only way Congress should extend the wash sale and constructive sale rules to digital assets is as part of a broader crypto tax package — not as a “pay-for” for unrelated legislation. These rules are complex, and they must be designed in harmony with other reforms like a mark-to-market election, staking source rules, and de minimis exemptions for broker tax reporting. Using wash sales as a quick revenue raiser in a non-crypto bill would risk creating confusion, compliance burdens, and unintended consequences without addressing the underlying framework. Additionally, the implementation of a wash sale rule would be burdensome and Congress should allow for an implementation period of at least 18-24 months.

Legislative Tools. In the context of a broader crypto tax package, Congress should extend Code §§1091 and 1259 to cover digital assets and their derivatives, with clear rules for what counts as “substantially identical.”

The principle is clear: By embracing the wash sale and constructive sale rules, digital assets can be brought into alignment with traditional finance — proof positive that we are serious about a fair, consistent, and durable and comprehensive tax framework.

9. De Minimis Exemption for Small Crypto Transactions

For digital assets to succeed as a medium of exchange, the Code must accommodate everyday use. Today, however, every crypto payment or a miniscule airdrop — no matter how small —

can trigger a taxable gain or loss. That means a user who spends or deploys crypto to pay for “gas” (transaction fees) in a decentralized protocol is technically required to calculate basis, recognize gain or loss, and report it on their tax return. That is not a workable system.

This burden is out of step with long-standing tax policy. The Code already includes a de minimis rule for foreign currency, excluding small personal transactions from tax. Digital assets should be treated the same way. Without a de minimis exemption, users cannot realistically use crypto in payments or protocols. As noted above, this issue is especially acute in the context of stablecoins where there is no gain or loss — but it’s a problem across the crypto universe.

An example: A user who uses $1 of ETH to deploy a smart contract on the Ethereum network could, in theory, be required to file a tax form for that single transaction. Multiply that across potentially thousands of small deployments in different DeFi protocols consumers may want to use as blockchain technology powers more and more parts of everyday life, and the compliance burden becomes absurd. Worse, mandatory reporting of every on-chain action creates a government record of private digital activity — from testing a protocol to paying a subscription. That is not tax enforcement; that is surveillance.

The solution is simple. Congress should adopt a de minimis rule that excludes small transactions — for example, up to $600 annually or $50–$100 per transaction — from gain or loss recognition. The revenue impact would be small, but the benefit for adoption, compliance, and privacy would be enormous.

Administrative Tools. Treasury could issue a Notice temporarily exempting small-dollar stablecoin transactions or paying gas from broker and taxpayer reporting requirements or from taxable income, reducing the immediate compliance burden.

Legislative Tools. Congress should codify a digital asset de minimis exemption, modeled on the foreign currency rule, to ensure consumers can use crypto in everyday protocols and payments without filing a tax return or paying fractional taxes for every minor transaction.

The principle is clear: Americans should not need a tax lawyer to interact with a DeFi protocol or to use a stablecoin to purchase a cup of coffee. A de minimis exemption would unlock real-world use cases, protect consumer privacy, and fulfill the goals Congress embraced in the GENIUS Act.

10. Tracking Cost Basis of Digital Assets by Account or Wallet

Effective January 1, 2025, the IRS has eliminated the "universal wallet" method for tracking the cost basis of digital assets. Taxpayers can no longer treat identical digital assets across accounts and wallets as one commingled pool; the cost basis in each account or wallet must be tracked separately. This change aims to enable the IRS to verify transactions reported on tax returns against those reported on Forms 1099-DA, creating auditable connections between on-chain activity and tax reporting.

The new framework, however, presents several issues:

- **What constitutes an account or wallet?** Code §1012(c) requires that taxpayers track cost basis by "account." Treasury Regulations, however, refer to digital assets "held in a *wallet or account*." Neither term is clearly defined. An example: Suppose a taxpayer holds 100 bitcoin distributed equally across two custodial accounts (e.g., Coinbase, Kraken) and 2 self-custody wallets (e.g., Ledger, Trezor), and uses software to track basis across the self-custody wallets. It's unclear whether the taxpayer has one self-custody account or two self-custody wallets. Treasury Regulations state that variations of "held in a wallet or account" have similar meanings, implying taxpayers can choose between wallet-by-wallet or aggregated basis tracking.

- **What constitutes a user's "private keys"?** Private keys, typically secret alphanumeric codes, provide ownership and control over digital assets, acting like a crypto wallet password for transactions. Treasury Regulations do not offer a clear definition, potentially encompassing a wallet's seed phrase, a computer password granting wallet access, or an accounting program password for aggregated cryptocurrency holdings.

Treasury Regulations allow custodial brokers to track cost basis at the sub-ledger account level within pooled, omnibus wallets due to the high cost and complexity of individual customer wallets. Moreover, the Treasury Regulations emphasize uniform, technology-agnostic basis rules, rejecting address-based rules for account models as non-compliant with Code §1012(c). This approach should apply to taxpayers who self-custody digital assets.

Administrative Tools. Treasury has authority to clarify through Treasury Regulations or Notice guidance that users should be able to aggregate all self-custodied assets at the sub-ledger account level. This aligns with how custodial brokers are able to report digital asset transactions on Form 1099-DA and should also apply to users who self-custody digital assets.

Legislative Tools. Congress should amend Code §1012(c) to clarify that for digital assets held in an unhosted wallet, an account means a sub-ledger account of a wallet or wallets, or amend Code §1012(c) to clarify that users who self-custody digital assets should be permitted to track cost basis at a pooling account level and not at the blockchain address level.

Bonus: Blockchain-Enabled Tax Attestation Tools

Most discussions of crypto and tax focus on risks: underreporting, tax gaps, compliance challenges. But blockchain technology itself can also be part of the solution. If properly designed, it can enhance tax integrity rather than undermine it.

One promising idea is a tax attestation token — an optional, blockchain-based mechanism that would allow taxpayers to prove compliance without disclosing all their personal data. Instead of sending the IRS billions of transaction records — many of which contain no taxable information — taxpayers could use a tokenized attestation that validates their reporting in real time.

An example: Imagine a validator earning staking rewards through a protocol. Instead of receiving dozens of raw forms, the IRS could receive a simple blockchain attestation that confirms the validator's income, links to the reported wallet, and verifies that taxes were properly calculated. The taxpayer maintains privacy, the IRS receives usable data, and compliance is strengthened.

This is not science fiction. Pilot projects are already underway globally, and the underlying technology is readily adaptable to the U.S. system. Embracing blockchain for tax administration would reduce errors, cut costs, and improve enforcement — all while respecting privacy.

Administrative Tools. Treasury could establish a regulatory sandbox for blockchain-based compliance solutions, inviting industry proposals and piloting tax attestation models in limited contexts.

Legislative Tools. Congress could authorize the IRS to adopt blockchain-enabled compliance mechanisms on an optional basis, ensuring the agency has the mandate and flexibility to modernize tax administration.

The principle is clear: blockchain can be used to collect taxes as well as to pay them. By embracing innovation, Congress can transform crypto from a perceived risk to a tool for integrity, efficiency, and trust in the tax system.

The Legislative and Administrative Path Forward

The issues I've outlined today are not theoretical. They are real, current, and solvable — if policymakers act with urgency and precision. Some fixes can and should be made immediately through administrative action. Others require Congress to legislate, both to create certainty and to ensure the United States remains competitive.

Administrative Action. Treasury and the IRS have tools at their disposal today. They can issue:

- Notices to delay or narrow the scope of overly broad tax reporting requirements;
- Revenue Rulings, Revenue Procedures, or Notices to clarify treatment of loans, grantor trust rules, staking, or sourcing;
- Private Letter Rulings to give market participants case-specific guidance;
- Regulations to harmonize UBTI treatment with economic reality.

These actions would provide immediate relief and prevent harm to U.S. markets while Congress works on broader reforms. But they are not sufficient on their own.

Congressional Action. Durable solutions must come from Congress. Just as the GENIUS Act provided clarity on payment stablecoins, and as the Banking and Ag Committees consider crypto market structure, Congress should now turn to the Code. The areas we have highlighted — from broker reporting to de minimis exemptions to mark-to-market elections — require statutory changes for long-term certainty. And importantly, these reforms should be pursued as a package, not piecemeal revenue raisers. Tax rules for digital assets must be coherent and not cobbled together.

Conclusion

Crypto now represents a $4 trillion global economy. Other jurisdictions are moving quickly to provide clarity and attract capital. The United States cannot afford to lag behind. If we get this right, we can preserve our position as the world's financial leader, attract long-term investment, and ensure that tax policy both protects the base and enables innovation. If we get it wrong, capital, jobs, and tax revenue will migrate abroad.

Congress and the Administration should embrace blockchain as an opportunity to strengthen our tax system. By providing parity with traditional finance, clarifying core rules, and using technology itself to enhance compliance, the United States can build a tax framework that is fair, durable, and future-proof.

We have a choice. We can let uncertainty persist — driving innovation, jobs, and tax revenue offshore. Or we can take the same approach Congress took in the GENIUS Act: bipartisan, thoughtful legislation that brings clarity, fairness, and durability.

The recommendations I've outlined today — from broker reporting to staking, from lending to de minimis — are not about special treatment. They are about parity with traditional finance and about building a tax framework that reflects economic reality. In some cases, Treasury and the IRS can act immediately. But the most durable, comprehensive solutions will come only from Congress, working across the aisle.

Done right, tax policy for digital assets can protect the tax base, enhance compliance, and at the same time enable payments, capital formation, and innovation that strengthen America's role as the world's financial leader. Done wrong or not at all, it risks creating confusion, compliance costs, and capital flight.

I urge the Committee to seize this opportunity. The choices we make now will determine whether America leads the next financial revolution or falls behind. By providing parity with traditional finance, clarifying core rules, and using technology itself to enhance compliance, we can build a tax framework that is fair, durable, and future-proof.

Thank you, and I look forward to answering your questions.