INSIGHTS

# Tax Policy for the Digital Asset Age

Digital assets are rapidly becoming a core part of modern finance—used every day for payments, investments, trading, and a growing range of financial services. Yet the U.S. tax reporting framework has not kept pace, and applying last century's rules to 21st-century digital markets is leading to predictable and counterproductive results: brokers and taxpayers required to generate vast information with minimal taxable value, regulators inundated with low-signal paperwork, and all parties face rising compliance and administrability burdens in exchange for limited incremental insight for tax authorities.

As adoption grows, this mismatch between rules and technology risks distorting economic behavior. The time taxpayers must spend navigating complex reporting requirements effectively functions as a hidden tax on innovation. Targeted reforms that reduce low-signal reporting and focus on higher-value tax information can improve outcomes while creating a system that scales—one where compliance remains practical whether a taxpayer has ten transactions or ten thousand.

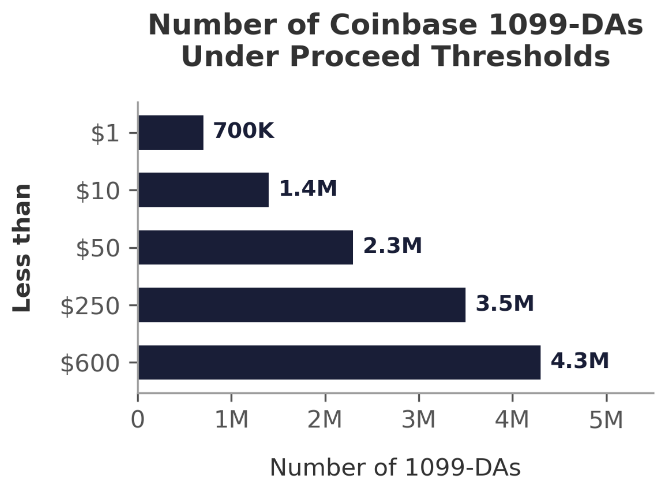
**Completing the Digital Asset Framework**

The enactment of the GENIUS Act and important clarity from regulators over the last year mark significant progress in digital asset policy. The U.S. is poised to achieve a comprehensive regulatory framework that will provide the clear rules market participants require to develop new products and services powered by blockchain technology. But this progress will be frustrated without parallel updates to the U.S. tax code, which was drafted largely before Congress and the public had seriously considered the unique features and potential of blockchain technology.

As the largest U.S. cryptocurrency exchange, Coinbase is in a unique position to inform the development of a sensible framework for crypto tax. Leveraging anonymized data from our users, we hope to lay the groundwork for modernizing digital asset tax policy. This paper will explore one important aspect of digital asset tax policy, information reporting. It will focus on how technical adjustments—including the introduction of a de minimis threshold, reporting refinements, and tailored treatment of payment stablecoins—can dramatically reduce compliance and administrative burdens while maintaining IRS insight into significant transactions.

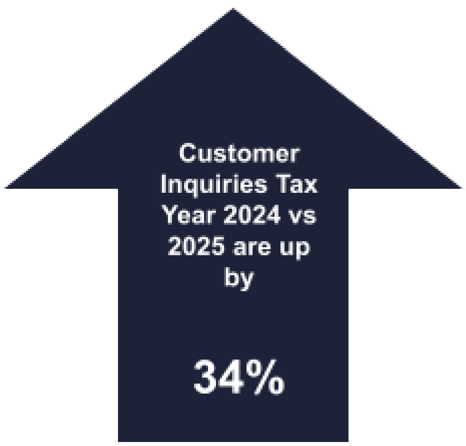
**Establishing a De Minimis Threshold for all Digital Assets**

The IRS created Form 1099-DA in response to a 2021 law that imposed reporting requirements on digital asset brokers. The 2025 tax year is the first for which brokers are required to issue these forms—and the scale of required paperwork is coming into focus. While the purpose of the 2021 law was to reduce tax evasion and increase tax transparency, the law vastly increased the number of reportable crypto transactions, a huge number of which are low-value, low-tax events. For the 2025 tax year, Coinbase—like other crypto brokers—will be required to issue millions of consolidated Form 1099-DAs to customers. Coinbase data show that much of the paperwork generated under the new requirements represents small transactions.



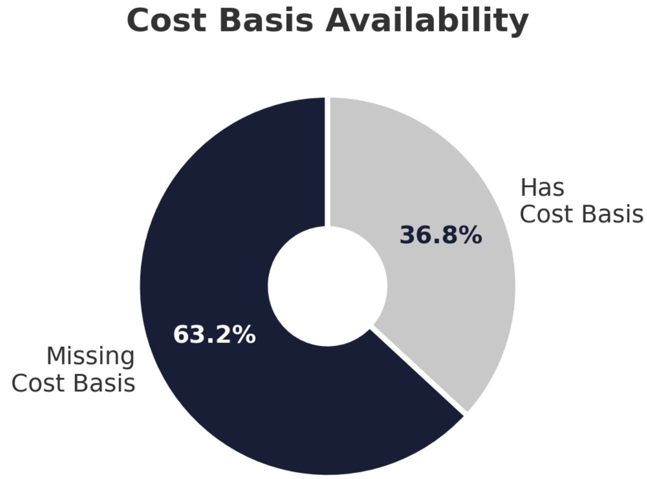
Around **3.5M** Form 1099-DAs will be issued to users with gross proceeds under **$250,** and **4.3M** of the forms will go to users with proceeds under **$600.** And almost **700,000** of the forms are issued for proceeds under **$1.**

The takeaway: **crypto transactions yielding the smallest proceeds are responsible for generating huge numbers of 1099-DAs.** So far this year, Coinbase received **34 percent more** customer service inquiries related to tax reporting than in the same period last year—a clear sign that new rules are causing confusion for ordinary taxpayers. This confusion not only stifles innovation and adoption, but heightens the risks for reporting errors.




Contributing to taxpayer confusion, brokers face challenges in reporting cost basis to taxpayers related to transfers of  digital assets across multiple platforms and from wallet-to-wallet. Coinbase data is incomplete with respect to cost basis for 64% of customers. Brokers can't report information they don't have from other platforms—but taxpayers will still be required to offset reported proceeds with the applicable cost basis, or else be taxed more than they owe.  This problem becomes particularly acute for taxpayers with a small number of low value transactions, most of which could be reported as gains on gross proceeds without cost basis.

Policymakers have recognized the administrative burden imposed by granular reporting requirements for small transactions, including with respect to cost basis, in other contexts. For example, the American Rescue Plan Act of 2021 lowered the Form 1099-K reporting




threshold for payment apps and online marketplaces to $600. Recognizing the administrative burden this would impose on platforms like eBay and PayPal and taxpayers reporting routine transactions, the IRS delayed implementation multiple times before Congress restored the original $20,000 and 200-transaction threshold in the Working Families Tax Cut Act.

A similar approach makes sense here. 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. This approach would clarify that the use of BTC or ETH for small purchases or network interaction like gas fees do not result in a burdensome taxable event.  Extending this rule to stablecoins would eliminate unnecessary reporting burdens for transactions using federally regulated, dollar-equivalent instruments, which typically result in little or no gain or loss.  And to maximize gains from increased administrability, it is important to ensure that broker reporting requirements align with this exclusion. The revenue impact would be small, but the benefits for adoption and compliance would be enormous.

**Clarifying Reporting of Sales and Executions**

Clarifying that brokers may aggregate sales and executions of the same digital asset by date when reporting on Form 1099-DA would reduce reporting volume, while providing the IRS with the same information on proceeds. Currently, rules are unclear on whether each execution—even on the same date—must be reported as a separate line item.

For example, for a customer executing three sales of Ethereum on the same day, an exchange like Coinbase will report:

| Date | Time | Amount | Gross Proceeds | Cost Basis |
|---|---|---|---|---|
| 1/1/2025 | 1:00:00PM | 100 ETH | $3,000 | $2,500 |
| 1/1/2025 | 1:20:00PM | 200 ETH | $6,000 | $3,000 |
| 1/1/2025 | 2:30:00PM | 200 ETH | $6,000 | $3,500 |

These transactions could be aggregated as a single line item without the loss of any meaningful information:

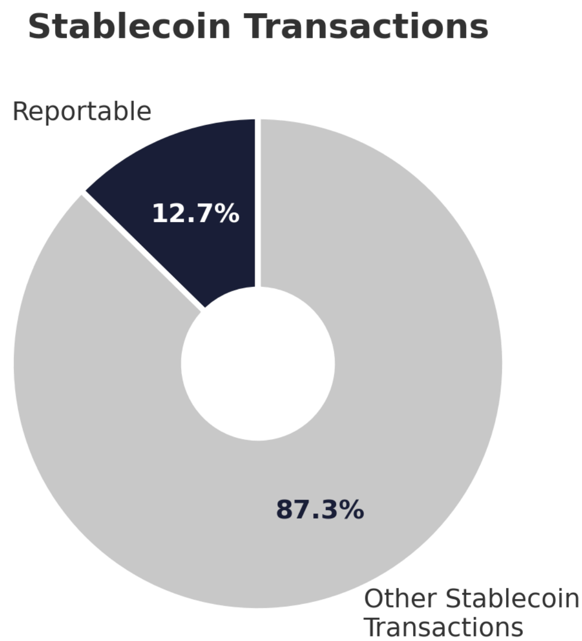
| | | | | |
|---|---|---|---|---|
| 1/1/2025 | | 500 ETH | $15,000 | $9,000 |

For customers with many transactions, aggregation could substantially reduce the length of Form 1099-DA. The impact is clear: aggregation by date is an easy fix that streamlines digital asset tax reporting and renders tax data more digestible for customers and easier to process for brokers and the IRS.

**Enabling Stablecoins for Everyday Payments**

The GENIUS Act recognized that payment stablecoins are a legitimate financial innovation that should be usable in everyday commerce. Tax policy should not undermine the historic step forward taken by Congress and the President in enacting this law. If Americans cannot use such stablecoins for payments without generating numerous (and valueless) forms, the promise of the GENIUS Act will go unfulfilled.

While reporting requirements for stablecoin transactions are somewhat less burdensome than for other types of crypto, the current de minimis threshold of $10,000 in aggregate proceeds for designated stablecoins is insufficient, since 1099-DAs will still be issued for a large number of zero gain/loss stablecoin transactions—amounting to forms for **nearly 13 percent** of all Coinbase customers making designated stablecoin transactions.[1]




**More than 87 percent** of Coinbase customers whose designated stablecoin transactions are not currently reported can expect a large amount of additional paperwork in future tax years. As adoption across the economy grows and our customers increasingly use stablecoins for everyday transactions, more of them can expect to exceed the $10,000 threshold and receive Form 1099-DA in the mail. The extra time and effort this will require serves little purpose. Because the aggregate proceeds from a taxpayer's sale or exchange of all stablecoins is wholly unrelated to the gain or loss embedded per transaction—and gain or loss will likely be close to zero on a per-transaction basis—current rules impose onerous reporting requirements that fail to scale and will likely fail to identify any capital gains.

[1] While brokers may exclude stablecoin transactions of up to $10,000 in aggregate gross proceeds from Form 1099-DA reporting, users must report all stablecoin transactions on their personal tax returns, whether or not they are reported on Form 1099-DA.

Payment stablecoins are, by design, not investment assets—they are a mechanism for transferring value. Treating them as capital assets subject to gain/loss reporting is a category error that Congress has the opportunity to correct. Extending cash-equivalent treatment to payment stablecoins would align tax law with economic reality, reduce compliance burdens on millions of Americans, and support the payments infrastructure that the GENIUS Act is designed to build.

*A Note on Scoring in a post-GENIUS environment*

The GENIUS Act also changes how the budget impact of stablecoin tax reforms should be evaluated. Payment stablecoins regulated under GENIUS are subject to supervisory and reserve requirements designed to maintain a stable value, making significant gains or losses unlikely. As a result, introducing a de minimis threshold or other reporting refinements for stablecoin transactions will not produce meaningful negative revenue effects.

In assessing the fiscal impact of potential changes to the tax treatment of specifically stablecoins, revenue estimates should account for the safeguards established under GENIUS rather than relying on assumptions drawn from an earlier, less regulated market. In a post-GENIUS environment, the policy focus should be less on marginal revenue effects and more on ensuring that tax rules do not impede the practical use of regulated payment stablecoins.

## A Practical Path for Policymakers

A pragmatic framework for digital asset tax reporting would refine current rules to reflect where compliance burdens actually fall. Policymakers can acknowledge that much of the complexity and cost is borne by individual market participants with low gross proceeds and then adjust requirements accordingly. GENIUS-compliant payment stablecoins should be treated as cash equivalents for federal tax purposes—specifically for income recognition and 1099-DA reporting obligations. Separately, for digital assets more broadly—including bitcoin, ethereum, and others, Congress should establish a de minimis threshold below which gains and losses need not be recognized or reported. Congress should also clarify that 1099-DA rules permit brokers to aggregate executions for a given digital asset by date rather than report each fill as a separate line item. These are administrative fixes that would reduce compliance burdens on millions of Americans without sacrificing informational value or tax collections. The IRS would still receive complete proceeds data; the difference would be fewer duplicative entries and more administrable reporting.

In that sense, modernizing digital asset information reporting is not a departure from established tax principles but an application of longstanding principles of proportionality and materiality in the tax code to a new set of instruments. Targeted changes can lighten the load on low-volume and small-value users while preserving high-quality data for enforcement. By focusing on thresholds, aggregation, and clear guidance rather than maximal line-item granularity, policymakers can maintain the integrity of the tax base, direct oversight toward genuinely higher-risk activity, and make voluntary compliance realistically achievable for everyday taxpayers engaging with digital assets.