COIN CENTER

Six Ways Congress Can Make Crypto Taxes Work for Everyday Users

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At Coin Center, our mission is to defend the rights of individuals to build and use free and open cryptocurrency networks. Sound tax policy is central to that mission. Without updates, the tax code can impose administrative burdens so severe that everyday participation in these networks becomes impractical for Americans.

Unlike traditional investment assets such as stocks or derivatives, cryptocurrencies are used for many ordinary, low-value, day-to-day activities such as interacting with applications, paying network fees, transferring value to friends and family, or participating in governance activities for online communities. Treating every on-chain movement of a cryptocurrency as if it were a taxable securities trade not only distorts user behavior but also undermines the core purpose of these networks as open payment and computing rails. The result is that individuals face compliance obligations completely out of proportion to the economic significance of their activity.

In recent months, there has been renewed momentum in Congress to address how cryptocurrency transactions are taxed. Coin Center has been actively engaged in these conversations, including providing testimony last year before both the House Ways and Means Committee and the Senate Finance Committee on the practical challenges current tax law creates for everyday crypto users. More recently, Representatives Miller and Horsford released a bipartisan discussion draft on modernizing crypto tax rules. As more lawmakers consider concrete proposals to update the tax code, we want to clearly lay out our specific tax priorities and explain why these reforms matter for anyone who wants to use crypto networks in everyday life.

We have long advocated for sensible tax policy adjustments that allow for participation in crypto networks without creating a compliance nightmare for users. The six priorities outlined below focus on easing administrative burdens for individual users, aligning crypto tax treatment with longstanding principles in other areas of tax law, and ensuring fairness and neutrality so that cryptocurrency usage is neither penalized nor privileged relative to comparable activity in the traditional economy.

1. Adopt a *De Minimis* Personal Transaction Exemption

Since 2014, the IRS has generally treated most cryptocurrencies as property.[1] This means that any sale, exchange, or use of cryptocurrency can trigger a capital gain or loss. Every time a person conducts a transaction on a crypto network, 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 resulting in a disincentive to small personal transactions due to the administrative burden of tracking capital gains.

A clearer example of the problem

Consider an ordinary user who wants to try using a new onchain messaging application that requires payment in a token on the Ethereum network.[2] To complete the transaction and send her message, she must pay a couple dollars worth of the token as well as a few cents in ETH as a "gas fee". Under current law, she must determine the USD value of both the token and ETH at the time she acquired and spent each and account for the gain or loss even if it amounts to only a few cents.

This same complexity arises in stablecoin transactions for goods or services. While stablecoins are intended to function as payment instruments and are regulated in a manner to ensure they track closely to the value of one dollar, they are still treated as property for tax purposes.[3] So using stablecoins for everyday payments in the same way that a person may use Venmo or Apple Pay triggers the need to determine the taxable gain or loss on both the stablecoin and the token-denominated fee for every transaction.

Nothing about these interactions resemble an investment decision. Yet a user is treated as if she were actively trading an investment asset and must prepare tax calculations that rival those required for high-volume securities investors. This is the opposite of administrable tax policy for everyday network usage.

The reality is that 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

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[1] 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.
[2] *See, e.g.*, https://x.com/VitalikButerin/status/1993803663026860125?s=20.
[3] *See* Chou, et al., "Stablecoins Under the Final Digital Asset Reporting Regulations," KPMG, Aug. 23, 2024, https://kpmg.com/kpmg-us/content/dam/kpmg/pdf/2024/082324-digital-assets-stablecoins.pdf.

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.

De Minimis exemption as a targeted fix

Coin Center has long championed legislation that would create a *de minimis* exemption from taxation for certain small-value crypto transactions.[4] For example, a similar exemption exists for transactions in foreign currencies that excludes from taxation gains on transactions below $200.[5]

We favor a proposal that would exempt all transactions below valued below $600 inclusive of transaction fees. Note that this proposal merely asks whether the total size of the transaction is below $600. Unlike some previous proposals, it would not base the exemption on the amount of the taxable gain. So while the threshold amount is higher, the actual effect of the exemption is less in most cases. Such an approach would avoid the complexity of individual users still having to calculate gains in order to determine if the exemption applies. Rather, users can quickly determine that any sub-$600 transaction falls below the legal threshold and need not determine their basis and capital gains.

We support pairing the exemption with reasonable safeguards to prevent abuse, such as (1) an annual cap on the total amount that may be exempted in a calendar year and (2) anti-abuse rules preventing intentional "structuring" of larger transactions into smaller ones.

With the right guardrails, a *de minimis* exemption represents a modest reform that would align crypto transactions with the existing rules for foreign currency transactions and would enable everyday use of cryptocurrencies without sacrificing tax compliance.

Special cases: stablecoins and user-wrapped tokens

In addition to a general *de minimis* exemption, Congress should consider a tailored rule for GENIUS-compliant payment stablecoins. As discussed, even assuming most stablecoin transactions will generate no gain or loss, taxpayers must still go through the administrative process of calculating taxes due to the potential for the assets to deviate (often by only fractions of a cent) from their $1 peg.

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[4] *See* Brito, Jerry, "Bitcoin taxation is broken. Here's how to fix it." Coin Center, Apr. 12, 2017, https://www.coincenter.org/bitcoin-taxation-is-broken-heres-how-to-fix-it/.
[5] *See* 28 U.S.C. § 988(e).

A simple and administrable approach would be to treat qualifying, regulated stablecoins as always valued at par for tax purposes: 1 GENIUS-compliant stablecoin = $1 for all transactions and all tax calculations. Remember, however, that this simplification will only be effective if paired with the *de minimis* exemption described above. Without it, the taxpayer would still need to calculate the gain or loss on the cryptocurrency used to pay fees on chain for each stablecoin transaction.

A similar commonsense fix should be considered to deal with user-wrapped tokens. There are various methods by which a holder of one cryptocurrency can, without reliance on any third-party and with no counterpart risk, "wrap" one token such that it can travel on another blockchain or become usable with certain smart contracts on its native blockchain. For example, in order to use ethereum in many ethereum-based smart contract applications, the taxpayer must wrap their ethereum (ETH) into "wrapped ETH" (WETH). Just like stablecoins in relation to USD, ETH and WETH do not materially differ in price on markets. Indeed, a user can convert their WETH into ETH by themselves without needing any trading partner or trusted third-party; the "transaction" is a purely technical adjustment in how the ETH is described onchain. This is not meaningfully different than placing cash in an envelope to make it easier to hand to someone else; the assets are unchanged in economic substance, the means of communication is all that has been effected by the wrapping. From a policy perspective, users should not need to attempt for capital gains on these transactions.[6]

Nonetheless current IRS guidance could inappropriately be read to suggest that this wrapping activity is a taxable event. That policy is hugely detrimental to American competitiveness as token interoperability between blockchains and applications is essential to making these networks usable and needless tax scrutiny of every wrapping event creates substantial frictions and no actual substantive tax revenue.

2. Forego the Wash Sale Rule

Several early legislative proposals for crypto tax reform contemplate applying the "wash sale" rule to crypto transactions. This rule, borrowed from traditional financial markets, prevents a taxpayer from deducting losses when an asset is sold and repurchased within 30 days either before or after the sale, and it is intended to stop investors from harvesting artificial losses while keeping the same economic exposure. Such a rule makes sense in the context of

[6] There may be certain transactions that are styled as "wrapping" that do involve a change to the economic substance of the underlying asset or trust in a third-party. These should not be exempted from tax treatment. Therefore "user-defined wrapping" should be defined as any technical change to a token that does not affect the underlying economic substance of the assets or create reliance on any third-parties or counterparties.

securities, where activity is overwhelmingly investment-driven and transactions are typically deliberate portfolio decisions based solely on the price of a security. But cryptocurrency is used by a large and growing number of people for purposes beyond investment such as payments, remittances, accessing applications, or participating in governance, so routine, non-speculative transactions could easily and unintentionally trigger wash sale treatment.

Imagine an individual who programatically buys $100 of SOL every other month simply to keep a balance on hand. As the price of SOL continues to fluctuate over time (including many price drops), that same person engages in numerous onchain SOL transactions. One day, he swaps some SOL for USDC to reimburse a friend for dinner. A few weeks later, he uses a small amount of SOL to pay transaction fees to participate in a new decentralized social network. The next month, he finds an NFT that he purchases using SOL and displays the image on his social media accounts. None of these actions resemble the kind of intentional buy–sell loss-harvesting patterns the wash sale rule was designed to police; they're just routine, day-to-day uses of a cryptocurrency that also happens to regularly fluctuate in price.

But at tax time, this ordinary user would have to identify every time they sold or otherwise disposed of any SOL at a loss, and then identify every replacement purchase occurring within the 61-day windows surrounding each loss sale. Next, they must calculate the portion of any loss that is "disallowed" under the wash-sale rule, that must instead be tacked on to the cost basis of any replacement purchase, which includes the programmatic SOL purchases but also almost any other acquisition of SOL. Even a handful of routine transactions quickly creates a tangled web of overlapping 61-day windows—something trivial for broker-reported stock trades in a single account, but enormously burdensome for individuals self-managing dozens of small crypto movements across any number of wallets and accounts throughout the year.

This administrative mess would become a major disincentive to using crypto networks for the ordinary transactions they were designed to facilitate. Instead of using these networks simply as a new form of payment rail for everyday transactions, every user would be pushed to track their activity as if they were running an actively managed securities portfolio across a number of brokerages. Applying the wash sale rule in this context effectively forces people to treat their crypto holdings entirely as speculative investments because any routine action, from paying a fee to moving assets between apps, carries the risk of triggering overlapping 61-day windows and disallowed losses that must be meticulously apportioned to the basis of any qualifying replacement acquisitions. The result is a compliance burden so heavy that it would distort normal behavior and discourage the very types of user-held, user-directed transactions that make these networks valuable in the first place.

3. Consider Creating a Mark-to-Market Election

Another idea for improving tax administration, especially if Congress chooses to impose the wash sale rule, is to give individual crypto users the ability to elect a simplified mark-to-market (MTM) method when calculating their taxes. Under this option, taxpayers would no longer need to track gains and losses every time they spend or sell their crypto. Instead, they would simply report the total fair market value of each crypto asset they hold at the end of the year and pay tax on the net change. This shifts the burden from tracking hundreds or thousands of small, everyday transactions to one annual valuation exercise (that can likely be fully automated by exchanges or wallets).

To make this even simpler, an MTM election could be paired with a requirement that taxpayers use a single average-cost basis for each type of fungible crypto asset they hold. Rather than keeping records for every individual "lot" of BTC, ETH, or SOL they ever acquired, the user would maintain one running cost pool for each asset class. When they acquire more, the pool's average cost adjusts; when they spend or swap some amount, the gain or loss is computed using that single average. At year-end, the MTM adjustment resets the entire pool to fair market value, so the next year begins with clean, easy-to-track basis numbers. For a full example of how this would work, refer to the addendum at the end of this paper.

Together, these two reforms—optional MTM and simplified average-cost basis—would dramatically reduce the administrative friction that currently prevents normal, non-speculative use of crypto networks. Individuals would no longer need to reconstruct the provenance of every coin they use to pay a fee or move assets between applications. They could still choose traditional capital-gains treatment if they prefer, but those who simply want to use crypto as a payment rail or as a tool for interacting with decentralized applications would have a straightforward, predictable, and automatable compliance path. This preserves tax integrity while eliminating the inadvertent complexity that now falls hardest on everyday users.

A few additional considerations to keep in mind with this proposal: An MTM election would convert all gains and losses during the year into ordinary income, which simplifies tax character issues and eliminates the wash sale rule for electing taxpayers. Policymakers should be aware that this shift to ordinary treatment may produce additional federal revenue, particularly for investors whose gains would otherwise be long-term capital.

For constitutional reasons, a mark-to-market regime must remain strictly elective, not mandatory. Courts have long recognized that unrealized gains are not "income" under the Sixteenth Amendment unless Congress provides specific statutory mechanisms and taxpayers voluntarily opt into them (as in the existing I.R.C. § 475(f) mark-to-market regime for securities

traders). A mandatory MTM system for all crypto users would risk substantial constitutional challenge.

Nevertheless, for users who prioritize administrative simplicity over tax-rate optimization, an elective MTM regime paired with pooled average-cost accounting could dramatically improve compliance and restore crypto's viability as a general-purpose digital payment rail.

4. Clarify Block Reward Taxation

A core element of open blockchain networks is that participants who validate transactions—whether through proof-of-work mining or proof-of-stake validation—create new tokens according to deterministic rules encoded in software. These newly created tokens, often called block rewards, are not paid by any counterparty. They are produced by the validator's own actions, much like a farmer growing crops or a novelist producing a manuscript.

Coin Center has long argued that block rewards should be treated as created property, and under longstanding tax doctrine, new property created through one's own labor or capital is not taxed when created—taxation occurs only upon sale or exchange. The IRS's current interpretation treats block rewards as gross income upon "receipt."[7] However, income necessarily entails a payment or transfer from a third party source whereas block rewards are generated from interacting with a technology. As a result, the IRS's interpretation conflicts with established tax principles.

The IRS interpretation also leads to significant overstatement of economic gain and therefore, overtaxation. As detailed in Coin Center's report, "Dilution and Its Discontents," taxing block rewards as income fails to account for the dilution that occurs when new tokens are created.[8] 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.

[7] Internal Revenue Service, Rev. Rule 23-14, 2023-33 I.R.B. 485, https://www.irs.gov/pub/irs-drop/rr-23-14.pdf.
[8] Landoni and Sutherland, *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/.

Since its introduction, Coin Center has advocated to correct the IRS revenue ruling, including through litigation in federal court.[9] As this continues to be an issue, Coin Center supports legislation, such as the "Providing Tax Clarity for Digital Assets" Act from last congress, which correctly codifies that block rewards are not income until disposition.[10] This approach aligns crypto tax treatment with established legal principles, avoids taxing unrealized and potentially ephemeral values, and removes the administrative burdens associated with valuing newly created tokens at the moment they come into existence.

By contrast, proposals that merely defer recognition of reward "income," while still treating rewards as taxable income at creation, are legally flawed and administratively dysfunctional. These approaches accept the IRS's incorrect premise, preserve unnecessary valuation problems, and ensure that taxpayers continue to face significant filing complexities even if payment of the tax is postponed. They do not solve the underlying compliance issues that small validators and individual network participants face.

5. Repeal 6050I Reporting

The Infrastructure Investment and Jobs Act enacted in 2021 applied the cash transaction reporting requirements of I.R.C. § 6050I to digital assets. Under this provision, anyone who receives more than $10,000 in cryptocurrencies 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.

Recipients of large crypto payments should be obligated to self-report these assets as income on their annual returns, but they should not be obligated to obtain and regularly report otherwise non-public information from or about the persons who are paying them on penalty of a felony. That information may be incomplete or non-existent, as in the case of a payment from a smart contract or a payment to a miner as part of a block reward. That information, when available, is also highly private, because the ability to match a real identity with a blockchain address allows one to obtain a complete transaction history for that real identity, revealing many intimate details about that person beyond the transaction being reported.

The 6050I provision isn't even aimed at collecting information from "third parties" like banks or exchanges; it demands that the persons directly participating in a transaction occurring

[9] Coin Center is supporting Josh Jarrett's lawsuit against the IRS. *See* Coin Center, "Jarrett takes IRS back to court in fight over crypto block rewards," Oct. 10, 2024, https://www.coincenter.org/jarrett-takes-irs-back-to-court-in-fight-over-crypto-block-rewards/.
[10] *See* H.R. 8149, 118th Congress (2024), https://www.congress.gov/bill/118th-congress/house-bill/8149/text.

without banks or other intermediaries report about themselves and the people they are paying or who are paying them. If there's no third party to a transaction then there's no third-party doctrine to obviate the need for warrants. If the government wants Americans to report directly about ourselves and the people with whom we transact, it should prove before a judge that it has reasonable suspicion warranting a search of our private papers.

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.[11] Our suit leads with two major claims: (1) forcing ordinary people to collect highly intrusive information about other ordinary people, and report it to the government without a warrant, is unconstitutional under the Fourth Amendment; and (2) demanding that politically active organizations create and report lists of their donors' names and identifying information to the government is unconstitutional under the First Amendment.

Congress can obviate the need for the judiciary to remedy these issues. 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.

6. Define "Readily Valued" Cryptocurrencies for Charitable Donations

Like other property, taxpayers that donate virtual currency to a charity are generally permitted to deduct the fair market value of the virtual currency or other property at the time of donation from their income that year.[12] However, for any donation over $5,000, this deduction generally requires the submission of a qualified appraisal prepared by a qualified appraiser in accordance with generally accepted appraisal standards and other regulatory requirements.[13] The tax code provides an exception to this appraisal requirement for certain "readily valued property" such as cash, stocks, or other property held as inventory or primarily for sale to customers in the ordinary course of a trade or business, and securities for which market quotations are readily available on an established securities market.[14] As the IRS' own Notice 2014-21 recognizes, virtual currencies like Bitcoin are widely traded on a variety of exchanges from which pricing

[11] Brito and Van Valkenburgh, "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/.
[12] *See* 26 C.F.R. § 1.170A-1(a)-(c).
[13] *See* 6 U.S.C. § 170(f)(11)(C) and (D); 26 C.F.R. § 1.170A-11(c).
[14] *See* 26 U.S.C. § 170(f)(11)(A)(ii)(I); 26 U.S.C. § 1221(a)(1); 26 U.S.C. § 6050L(a)(2)(B).

data is readily available.[15] In this way, cryptocurrency is similar to other categories of "readily valued property."

Congress should let donors rely on widely accessible exchange price data to establish fair market value, rather than requiring an unnecessary and expensive appraisal process. This can be accomplished by directing the IRS to set standards by which certain cryptocurrencies can be considered "readily valued property" that does not require a qualified appraisal.

Conclusion

As lawmakers consider how to modernize crypto tax policy, we hope Congress will adopt these practical, targeted reforms and continue engaging with stakeholders to ensure the tax code supports everyday use of cryptocurrency networks without sacrificing fairness or long-standing tax principles.

Addendum

Imagine an ordinary crypto user who holds BTC, ETH, and SOL. Under an optional mark-to-market (MTM) election paired with average-cost pooling, their tax year becomes simple and predictable.

Start of the year - The user's basis is set based on the fair market value of her holdings at the end of the prior tax year:

- 0.3 BTC worth $27,000 [Exchange rate - $90,000 BTC/USD]
- 5 ETH worth $10,000 [Exchange rate - $2,000 ETH/USD]

During the Year - The user interacts with crypto in a fairly typical manner:

- Buys 0.1 BTC for $8,000 [Exchange rate - $80,000 BTC/USD]
    - Total BTC pool cost = $35,000
    - Total BTC units = 0.4
    - Average BTC cost = $87,500 per BTC

- Buys 3 ETH for $6,600 [Exchange rate - $2,200 ETH/USD]
    - Total ETH pool cost = $16,600
    - Total ETH units = 8
    - Average ETH cost = $2,075 per ETH

[15] 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.

- Exchanges 4 ETH for 80 SOL [Exchange rate - $120 SOL/USD]
    - ETH calculations
        - Total ETH pool cost = $16,600 - (4 * $2,075) = $8,300
        - Total ETH units = 4
        - Average ETH cost = $2,075 per ETH
    - SOL calculations
        - Total SOL pool cost = $120 * 80 = $9,600
        - Total SOL units = 80
        - Average SOL cost = $120 per SOL

[NB: During the year, gains and losses on disposals are calculated using average cost basis, not the asset's fair market value at the time of disposal. Fair market value is only used to determine the gain or loss on that transaction and to perform the year-end mark, which resets basis for the following year. This distinction prevents double-taxation of the same appreciation and reflects standard treatment of pooled or fungible assets in the tax code.]

- Pays 1 ETH and 20 SOL for payments and gas fees
    - ETH calculations
        - Total ETH pool cost = $8,300 - (1 * $2,075) = $6,225
        - Total ETH units = 3
        - Average ETH cost = $2,075 per ETH
    - SOL calculations
        - Total SOL pool cost = $9,600 - (20 * $120) = $7,200
        - Total SOL units = 60
        - Average SOL cost = $120

End of the year - The user calculates taxes based on the fair market value of her crypto holdings relative to the start of the year, utilizing the average cost basis.

- On December 31, market prices are:
    - BTC = $100,000
    - ETH = $2,500
    - SOL = $140
- The user holds:
    - 0.4 BTC
    - 3 ETH
    - 60 SOL
- The fair market value of her holdings are:

    - BTC: 0.4 * $100,000 = $40,000
    - ETH: 3 * $2,500 = $7,500
    - SOL: 60 * $140 = $8,400
- Compared to the average cost basis:
    - BTC: $35,000 → $5,000 MTM gain
    - ETH: $6,225 → $1,275 MTM gain
    - SOL: $7,200→ $1,200 MTM gain

Total mark-to-market income = $7,475

Basis resets for the next year - The user begins the next year with a clean slate and simple, predictable reporting.