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Trump repeals crypto reporting rule: What it means for IRS tax compliance and privacy

By Robert W. Wood

The IRS focus on the tax treatment and reporting issues for crypto has grown and become more intense since 2014. The IRS has been forced to confront digital assets and has pursued tax compliance for holders, exchanges and others.

Now, President Donald Trump has taken one step to dial back required reporting by signing H.J. Res. 25. The new law repeals a set of regulations introduced by President Biden in 2024 that required decentralized finance brokers to report their gross proceeds from cryptocurrency sales to the IRS using a new variety of IRS Form 1099, the Form 1099-DA, "Digital Asset Proceeds from Broker Transactions."

The new form and requirements were controversial from the start, in part because the filing of this form would reveal the identity of the digital asset's recipient to the IRS. Any Form 1099 reporting income - such as Form 1099-MISC and Form 1099-NEC - does just that, with the recipient's Social Security Number so that the IRS computers can crosscheck against their tax returns.

Everyone must report their income, and that includes income from crypto transactions. However, many privacy-minded taxpayers are reluctant to disclose more information to the government. Some in the crypto community are particularly concerned about this issue. Brokers are still susceptible to an audit of their crypto sales, including via a John Doe Summons, which was widely used by the government with Coinbase, Kraken and other exchanges. The idea is to get account holder details from the exchanges directly.

A big advantage the government sought to reap from Form 1099 reporting is the ease with which reporting can be verified via computer matching. If amounts reported on Form 1099 don't match amounts on tax returns, the discrepancies can quickly be identified. The Congressional Joint Committee on Taxation estimated that the rollback of these regulations could add up to $3.9 billion to the federal deficit over ten years. It is possible that this long-discussed reporting requirement could be revisited in later administrations.

However, the bill was passed under the Congressional Review Act, which prevents the IRS from issuing new, substantially similar rules to replace the repealed ones without first going through Congress. Until Congress moves away from its current deregulatory stance, it is unlikely we will see similar reporting requirements introduced.

But that doesn't mean crypto tax reporting is gone or is easy. The IRS announced in 2014 (Notice 2014-21) that, for tax purposes, cryptocurrency is not currency, it is property. Since crypto is treated as property (such as stock or real estate), taxpayers pay taxes if they realize a gain, but they may also be able to claim losses when they are realized. As property, taxpayers must know when they bought the crypto, how much they paid and what they received for it. For stocks and real estate, this may be simple. For crypto, it can be much more difficult.

The IRS's FAQs state that all income, including gain or loss involving crypto, must be reported regardless of the amount and regardless of whether you received a Form W-2 or 1099. If you can't prove your basis to the IRS, the IRS will assume that your basis is zero. Many crypto investors make purchases multiple times and over many years. Don't forget the IRS question near the top of tax returns either.

IRS tax returns ask this basic question, with appropriate variations tailored for corporate, partnership or estate and trust taxpayers: "At any time during [tax year], did you: (a) receive (as a reward, award or payment for property or services); or (b) sell, exchange, or otherwise dispose of a digital asset (or a financial interest in a digital asset)?" The question must be answered by all taxpayers. Normally, you must answer "Yes" if you:

- Received digital assets as payment for property or services provided;
- Received digital assets resulting from a reward or award;
- Received new digital assets resulting from mining, staking and similar activities;
- Received digital assets resulting from a hard fork (a branching of a cryptocurrency's blockchain that splits a single cryptocurrency into two);
- Disposed of digital assets in exchange for property or services;
- Disposed of a digital asset in exchange or trade for another digital asset;
- Sold a digital asset; or
- Otherwise disposed of any other financial interest in a digital asset.

For frequently asked questions and other details, visit the Digital Assets page on IRS.gov. No matter what the transaction, you may have a gain or a loss - something quite apart from the income tax impact on the person you are paying. Take paying for services. Say you pay someone as an independent contractor with crypto. To report the payment, if you are in business and the payments during the year reach $600, you'll need to issue them an IRS Form 1099.

Whatever the type or amount of crypto you use, the IRS will say you paid it at the current market value of the crypto on that day. When you pay an independent contractor and issue a Form 1099, you can't enter a number of Bitcoin on the form. You must put the value in U.S. dollars as of the time of payment. The contractor you pay might keep the crypto, or might sell or transfer it the same day, but that doesn't impact your taxes.

How about wages paid to employees? Wages paid to employees using crypto are taxable and you must withhold taxes. That means withholding on other cash, or paying them partly in cash so you can send the cash to the IRS. It can be complex.

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