Understanding the new reporting rules for digital assets

Stay ahead of compliance complexity in crypto

The IRS has expanded reporting requirements for digital assets, ushering in a new era in cryptocurrency taxation. For a sense of the scale, by 2027 the IRS expects eight billion Forms 1099-DA to be filed annually—more than all other Forms 1099 put together.

The rules introduce a phased approach, beginning with gross proceeds reporting in 2025 (filed in 2026), followed by cost basis reporting for assets acquired on or after January 1, 2026. Taken together, they may require substantial adjustments in reporting practices and systems for many businesses now dealing with crypto transactions.

Introduction of Form 1099-DA

With the DA standing for "digital assets," the new form will replace the previous use of Form 1099-K or 1099-B for cryptocurrency reporting.

Special rules for qualifying stablecoins and specified NFTs

Qualifying stablecoins and certain specified NFTs receive special treatment, with different threshold and aggregated reporting provisions for qualifying stablecoins ($10,000 de minimis threshold for processors of digital asset payments (PDAPs)) and a $600 threshold for specified NFTs.

Multiple broker rule clarification

When multiple brokers are involved in a transaction, the regulations clarify which broker is responsible for reporting—typically, the broker crediting the proceeds to the customer's account.

Phased implementation

The regulations introduce a staggered timeline for different aspects of reporting. This gradual rollout allows businesses time to adapt their systems and processes to the new requirements, starting with gross proceeds reporting before moving to the more complex task of cost basis tracking and reporting.

Backup withholding requirements

The regulations introduce backup withholding obligations for digital asset transactions, with transitional relief for 2025 and special rules for preexisting accounts to help ease the implementation process.

Expanded definitions

The term "broker" now includes digital asset trading platforms, exchanges, and certain payment processors. This expansion significantly increases the number of businesses required to comply with these reporting obligations.

New documentation requirements

Brokers are now required to collect certified taxpayer identification numbers from customers. The rules provide some transitional relief for preexisting accounts, recognizing the difficulties in obtaining this information for long-standing customers.

Cost basis tracking and reporting

For assets acquired on or after January 1, 2026, brokers must track and report cost basis. This may present significant challenges for assets held across multiple platforms or acquired through various means, although current rules generally require cost basis reporting only for digital assets acquired in the customer's account at the reporting broker. This may change as the IRS introduces rules on reporting on transfers of digital assets between brokers and between brokers and nonbroker wallets.

Build or buy? What to look for.

Compliance with these regulations will present significant challenges, and systematic errors can lead to significant penalties.

While the assets and rules may be new, the question you will face is not: whether to build or buy. Your team must determine if it is financially viable to develop these tools from scratch—and maintain them long term across updates—when vendors are spreading that cost over numerous customers. For many companies, a managed services agreement may prove the most efficient way to validate and prepare forms, match Taxpayer Identification Number (TINs), and ensure compliance while allowing them to focus on their core business activities.

When considering options, these are a few key requirements:

Product matrix development

Creating a crypto product matrix is crucial for identifying reportable transactions across various digital asset types and activities. This matrix should categorize different products and services, mapping them to specific reporting, withholding, and due diligence requirements.

Readiness assessments and impact surveys

To understand your current state of preparedness, assessments should cover data availability, system capabilities, staff training needs, and the potential business impacts of the new reporting requirements.

Business requirements for system builds

Clearly defined business requirements are essential to capture, process, and report digital asset transactions accurately in line with the new Form 1099-DA specifications. These requirements can also be utilized to evaluate third-party vendor product functionality.

Health checks and compliance monitoring

Systems for ongoing monitoring of regulatory compliance and transaction reporting accuracy should include regular health checks to identify potential noncompliance for prior years and to test if the new end-to-end compliance process works as envisioned.

Test case development and execution

Comprehensive testing to ensure the reliability of updated systems should cover various transaction scenarios and types of assets. You want to identify and resolve issues before they impact actual reporting.

Voluntary disclosure assistance

For organizations that may have a prior history of filing issues or failures to file, assistance with voluntary disclosures can help address historical compliance concerns and mitigate potential penalties.

System logic review

A thorough review of system logic is important—particularly for electronic form processing, cost basis calculations, and reporting mechanisms—to ensure it accurately interprets and applies the new rules.

Ongoing consulting and advisory services

Given the complexity of the new regulations and the rapidly evolving nature of the digital asset space, ongoing access to general tax technical consulting and advisory assistance can be invaluable for staying compliant and adapting to future changes.

KPMG: Leading the digital asset race

The complexity of these digital asset regulations, their rapid evolution, and the expected high volume of Form 1099-DA filings, underscore the importance of a proactive and comprehensive approach to compliance.

At KPMG LLP (KPMG), we have dedicated technology, resources, and talent to not only help you navigate the rules as they come online, but also remain a step ahead of their continued evolution:

Broad range of managed services
We provide validation of Forms W-9 and TIN matching, along with Form 1099-K, Form 1099-DA, Form 1099-MISC, and Form1099-B reporting as appropriate. This can be structured as a full outsourcing arrangement or a cosourcing option, depending on your needs.

Strategic planning
We assist in creating a crypto product matrix with corresponding due diligence, withholding, and reporting obligations, helping you identify and manage reportable transactions across your product lines.

Technical services
We help review system logic and write the business requirements and test cases for system builds and operational changes. These include electronic form processing, cost basis calculations, and reporting mechanisms.

Compliance support
We offer support for voluntary disclosures related to past filing issues or failures to file, helping you address any historical compliance concerns.

Advisory services
Our services include readiness and impact surveys to assess your preparedness, general tax technical consulting, and advisory assistance tailored to your specific digital asset needs.

eDelivery
Our eDelivery tool helps you streamline your reporting process with electronic forms.

Quality assurance
We conduct health checks to assess your readiness and identify any potential noncompliance for prior years, or to test if your compliance process works as envisioned.

Access to insights
We provide access to subscription services, keeping you informed about the latest developments in digital asset reporting regulations.

Holistic approach
Our services cover the entire spectrum from initial assessment to ongoing compliance, including writing business requirements, reviewing test cases, and providing general tax technical consulting.

Customized services
We tailor our services to your specific needs, whether you require full outsourcing, cosourcing, or targeted assistance in specific areas of digital asset reporting compliance.

Constant change

The world of digital assets is a creative space that is continuously changing.

New reporting regulations represent a significant shift in the tax landscape, but they will also continue to shift as the underlying technology evolves and companies find new and innovative use cases for these assets. Building, maintaining, and continuously updating the compliance infrastructure to stay ahead of these regulations will likely present a significant challenge for all but the largest organizations.

KPMG can help. As leaders in tax, technology, and digital assets, we have the skills and resources to help you anticipate changes, maintain compliance efficiently, and seize opportunities in this new era of digital.

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

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