KPMG

Seven fundamental questions to ask when creating a digital asset strategy

Stay ahead of compliance complexity in crypto

The new regulations introduce complexities that CFOs and tax officers will need to consider in their digital asset reporting strategies. Below are seven questions that your strategy should take into account:

1. **How do we classify different types of assets for tax purposes?**

   The classification of digital assets—as securities, commodities, currencies, or something else—can significantly impact their tax treatment and reporting obligations and special rules apply to certain digital assets that have dual classification (e.g., as digital asset and as securities).

2. **What are the reporting obligations for each type of digital asset transaction?**

   Different transactions—sales, exchanges, payments, staking rewards—may have distinct reporting requirements under the new regulations (i.e., Form 1099-DA versus Form 1099-MISC, *Miscellaneous Information*; Form 1099-B, *Proceeds from Broker and Barter Exchange Transactions; or* Form 1099-K, *Payment Card and Third-Party Network Transactions*).

3. **How do we handle cost basis tracking and reporting for assets acquired on or after January 1, 2026?**

   How do brokers create/maintain tax lots or accommodate tax lot relief methods? The new regulations provide some guidance on managing tax lots and cost basis for digital assets transferred to an account at a broker, but more guidance is expected in the coming months.

4. **How do we navigate the phased implementation approach for reporting and withholding?**

   The regulations introduce a staggered timeline for different aspects of reporting and withholding, requiring careful planning and system updates. The IRS provided other transition rules in Notices, so taxpayers will need to monitor IRS guidance for possible changes or updates.

5. **What are the specific requirements for qualifying stablecoins and certain specified NFTs?**

   Qualifying stablecoins and specified NFTs will have special rules, including aggregated reporting options and different thresholds.

6. **How do we manage the documentation requirements?**

   The new rules will require customers to be documented with a Form W-8 or W-9 as appropriate, which may require significant outreach to existing customers.

7. **What are the implications for global reporting initiatives (e.g., Crypto-Asset Reporting Framework (CARF), EU Directive DAC8) on our digital asset operations?**

   Upcoming global reporting standards may require additional compliance measures and system changes beyond the US regulations. In addition, US regulations are expected to be expanded and modified to accommodate US participation in CARF.

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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