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Draft Instructions for Form 1099-DA, Digital Asset Proceeds from Broker Transactions

By Lani Chou, Cyrus Daftary, Phil Garlett, Nelson Suit, and Josh Tompkins

On September 9, 2024, the Internal Revenue Service (IRS) published draft Instructions for Form 1099-DA (Draft Instructions). These instructions provide information to brokers for completing Form 1099-DA for each reportable digital asset sale a broker has effected beginning in calendar year 2025. This article provides an overview of the Draft Instructions as they relate to the final U.S. broker digital asset reporting regulations published in the Federal Register on July 9, 2024 (the “final regulations”).

New Box 1a Code for Digital Assets

The Draft Instructions for Form 1099-DA include new details regarding box 1a, Code for Digital Asset. This new box requires nine alphanumeric characters, which are intended to reference a digital token identification number issued by the Digital Token Identification Foundation (DTIF). The DTIF website indicates that its coding is ISO standard for crypto and digital assets. Brokers will have to develop a process to download the digital token identifier (DTI) registry tables from the DTIF website which will be in a JSON format. The tables will include the DTI of each token and its corresponding “long name” which will be required in box 1b, Name of Digital Asset. The IRS expects that the information in boxes 1a and 1b will match the DTI registry. Depending on the frequency of updates to the DTIF registry, brokers may have to download this list on a regular basis. There is some indication on the DTIF website that an API may be in the process of being developed.

Where a digital asset is not registered with the DITF, the broker will enter “999999999” or nine nines. Many NFTs likely will not be registered and may require use of this alternative coding.

Account Number

A broker must report an account number if the broker has multiple accounts for a recipient for whom it is filing more than one Form 1099-DA. The IRS encourages brokers to designate an account number for all Forms 1099-DA that it files. The account number is the number assigned by the broker to a customer. It is not the wallet address of a customer. This requirement could inherently increase the number of Forms 1099-DA that need to be issued on an annual basis.

Applicable Checkbox on Form 8949

A broker will use this box to enter a one-letter code that will assist the recipient in reporting the transaction on Form 8949 and/or Schedule D of Form 1040.

- Code A: Indicates a short-term transaction for which the cost or other basis is being reported to the IRS
- Code B: Indicates a short-term transaction for which the cost or other basis is not being reported to the IRS
- Code D: Indicates a long-term transaction for which the cost or other basis is being reported to the IRS
- Code E: Indicates a long-term transaction for which the cost or other basis is not being reported to the IRS
- Code X: Reports a transaction if the broker cannot determine whether the recipient should check box B or E on Form 8949 because the holding period is unknown.

Date Acquired or Sold

The Draft Instructions provide guidance on entering the date of the digital asset sale. On Form 1099-DA, the format should reflect as MM/DD/YYYY.

Reporting Sales of Digital Assets Effected in 2025 and 2026

A broker will be required to report on Form 1099-DA sales of digital assets occurring on or after January 1, 2025. Basis information is not required for 2025 transactions and begins for sales of digital assets occurring on or after January 1, 2026. A broker is not required to report basis information if it is using the optional reporting methods for sales of digital assets that are qualifying stablecoins or specified nonfungible tokens (NFTs) or if the broker that has effected sales of noncovered securities. The broker may voluntarily report this information and will not be subject to penalties under section 6721 or 6722 for failure to report or furnish the information correctly if the broker checks box 9 to indicate that the digital assets are noncovered securities.

Below is a table that explains the reporting required on Form 1099-DA for 2025 and 2026.

Form 1099 DA Box	2025	2026
Account number	Required	Same as 2025
CUSIP number	May be left blank if there is no applicable number	Same as 2025
Applicable checkbox on Form 8949	Required	Same as 2025
1a. Code for digital asset	Required	Same as 2025
1b. Name of digital asset	Required	Same as 2025
1c. Number of units	Required	Same as 2025
1d. Date acquired	Not Required	Required if digital asset is a covered security and not reported using optional method
1e. Date sold or disposed	Required	Same as 2025
1f. Proceeds	Required	Same as 2025
1g. Cost or other basis	Not Required	Required if digital asset is a covered security and not reported using optional method
1h. Accrued market discount	Not Required	Required, if applicable
1i. Wash sales loss disallowed	Not Required	Required, if applicable
2. Basis reported to IRS	Not Required	Required if digital asset is a covered security and not reported using optional method
3a. Gross proceeds or net proceeds were reported to the IRS	Required if the digital assets were sold because of the exercise of an option	Same as 2025
3b. Check if proceeds from: QOF	Required, only if applicable	Same as 2025
4. Federal income tax withheld	Required, only if applicable	Same as 2025
5. Check if loss is not allowed based on amount in 1f	Required, only if applicable	Same as 2025
6. Short-term, long-term, or ordinary gain or loss	Not Required	Required if digital asset is a covered security and not reported using optional method
7. Check if 1f is only cash	Required, only if applicable	Same as 2025
8. Check if broker relied on customer-provided acquisition information	Required, only if applicable	Same as 2025

Form 1099 DA Box	2025	2026
9. Check if digital asset is a noncovered security	Required, only if applicable	Required, only if applicable. Do not check if reporting the sale of a covered security.
10. Noncovered security reason	Required, if box 9 checked	Same as 2025
12a. Number of units transferred in	Required if digital asset(s) sold, exchanged, or otherwise disposed of and were transferred to a broker providing custodial services	Same as 2025
12b. Transfer-in-date	Required if digital asset(s) sold, exchanged, or otherwise disposed of and were transferred to a broker providing custodial services	Same as 2025
13	reserved	reserved
14. State name	Required, only if applicable	Same as 2025
15. State identification no.	Required, only if applicable	Same as 2025
16. State tax withheld	Required, only if applicable	Same as 2025

Composite Statements

A broker that uses substitute statements may be able to report customer transactions (Form 1099-DA), stock sales (Form 1099-B), interest earned (Form 1099-INT and OID), dividends (Form 1099-DIV), and foreign taxes paid for the year on a single substitute statement. Brokers should refer to Publication 1179, General Rules and Specifications for Substitute Forms 1096, 1098, 1099, 5498, and Certain Other Information Returns for these rules.¹ The current Publication 1179 is expected to be updated to provide guidance on reporting on a composite Form 1099 that include digital asset sales.

Widely Held Fixed Investment Trusts (WHFITs)

The Draft Instructions for Form 1099-DA generally align with the preamble to the final digital asset reporting regulations. If a WHFIT sells a digital asset, and interests in the WHFIT are held through a securities broker, then the broker would report the asset sale generally on a Form 1099-DA (the appropriate Form 1099) to the IRS and a copy to any trust interest holder that is not an exempt recipient. A sale of a WHFIT interest by a trust interest holder, however, is reported on a Form 1099-B. The Draft Instructions include one line of unclear guidance that “a broker may choose to report this disposition of digital assets [presumably referring to sale of assets by the WHFIT] on either Form 1099-B or Form 1099-DA.” The IRS may need to clarify this statement as it may confuse industry participants as to its intent, since the remainder of the instructions appear consistent with the Preamble.

¹ As of the date of this article, the current revision of Pub. 1179 remains July 2024, without updates to include Form 1099-DA.

A broker will also have to provide a tax information statement that includes the information provided to the IRS on Form 1099-DA along with other previously required details to the trust interest holders. The written tax information statement furnished to the trust interest holder for 2025 is due on or before March 16, 2026.

Other Notable Instructions

Coordination for Dual Classification Assets. A broker should file Form 1099-DA and not a Form 1099-B for transactions involving dual classification assets that are tokenized securities. An exception to this rule, however, applies in certain cases, including for dual classification assets that qualify as section 1256 contracts, certain transactions involving dual classification assets that are digital assets solely because their sales are cleared or settled on a limited-access regulated network and tokenized money market funds. Dual classification assets that are section 1256 contracts or that are digital assets solely because their sales are cleared or settled on a limited-access regulated network are reported on the Form 1099-B. Sales of tokenized money market funds are generally not required to be reported, but, if the broker chooses to report, this is reported on a Form 1099-B as well.

Rewards and Staking Payments. A broker should not report rewards and staking payments on form 1099-DA; however, payors may need to report this income on Form 1099-MISC, Miscellaneous Income, or Form 1042-S, Foreign Person's U.S. Source Income Subject to Withholding, as required.

Partnership Sale. Form 8308 does not have to be filed if under section 6045, a return is required to be filed by a broker on Form 1099-DA for the transfer of a digital asset that represents the partnership interest.

Notes on Reporting Proceeds

Sales of qualifying stablecoins. A broker will enter the gross proceeds from all designated sales of the qualifying stablecoin reported on the Form 1099-DA. A separate Form 1099-DA will be required for each type of qualifying stablecoin.

Sales of specified NFTs. If a broker reports using the optional reporting method for specified NFTs, the broker will enter the gross proceeds attributable to first sales by a creator or minter reportable in Box 11c to the extent the broker has such knowledge.

Reflecting a loss. If a broker reports a loss, it will do so as a negative amount by enclosing it in parentheses.

Total proceeds. On Form 1099-DA, total proceeds may include cash, the value of services, digital assets, or other property received in exchange for the disposed digital assets.

Further Considerations

The Draft Form 1099-DA and its accompanying Draft Instructions provide a number of clarifications on items that brokers have been considering. There also remain quite a few open issues that may need clarification, including with respect to WHFIT reporting.

As a practical matter, brokers will need to consider reporting requirements and where systems may need to collect new data from new sources, such as the DTI registry. In order to report information in boxes 1a and 1b, brokers will need to utilize this new data source and may need to monitor for updates regularly. Since the Instructions indicate that the IRS expects these boxes to match the DTI registry, brokers may need a mechanism and a set of controls to determine whether their information matches the registry and whether a traded asset does not have a registry number.

Given all of the exceptions to reporting in general and the often-complicated requirements for each box (e.g., optional method reporting for qualifying stablecoins and specified NFTs), coding for the new Form 1099-DA may be cumbersome for the first few years, as the reporting requirements become effective in 2025 then 2026 and for different types of reporting methods. Brokers will need to be careful with their internal instructions and may have to review a larger number of returns by hand to confirm whether digital asset reporting has occurred correctly.

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