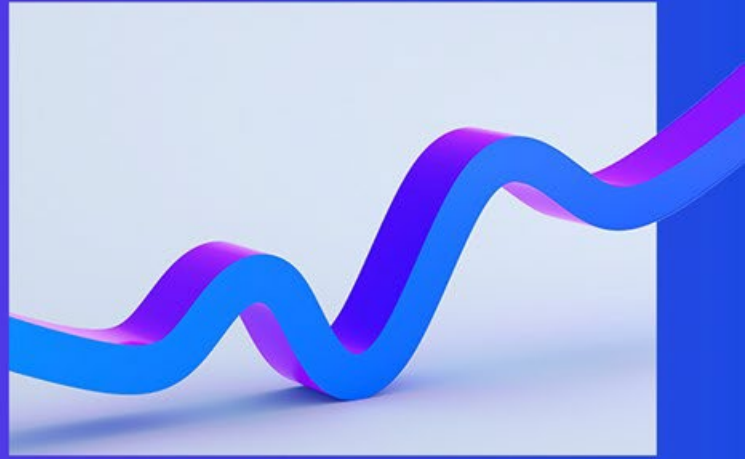




Tax IRW Ops Insights Quick Tips & Updates

KPMG Information Reporting & Withholding
Tax Services



Information Reporting for U.S. Digital Asset Brokers

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

This article provides an overview of the requirements for a U.S. digital asset broker to file information returns and furnish payee statements that report gross proceeds on sales of digital assets under the final broker digital asset reporting regulations published in the Federal Register on July 9, 2024 (the “final regulations”). It does not cover the requirements for reporting adjusted basis on these sales, nor does it cover the optional reporting methods for qualifying stablecoins and specified nonfungible tokens. These topics are covered in a separate series of KPMG articles.

Broker Reporting Requirements, Exemptions, and Exceptions

Under the final regulations, a broker is required to make a return to the Internal Revenue Service (IRS) showing the name and address of each customer along with details regarding gross proceeds with respect to sales of digital assets effected on or after January 1, 2025. For these purposes, a sale of a digital asset includes a disposition of a digital asset in return for cash and different digital assets. It also includes a sale of a digital asset in return for broker services, securities, and other property, as well as a payment by a party of a digital asset to a processor of digital asset payments (PDAP) in return for the payment of that digital asset, cash, or a different digital asset to a second party, provided that the transaction is not otherwise a sale. For a sale of a digital asset in return for real estate, reporting will be required if a real estate reporting person effects a sale on or after January 1, 2026. In addition to the return filed with the IRS, brokers required to report must also furnish a statement to the customer containing information reported on the return (“payee statement”).

Similar to existing broker reporting rules, a broker is not required to make a report of information with respect to a sale effected for a customer that is an exempt recipient. The final regulations added U.S. digital asset

brokers (other than certain registered investment advisors) to the list of exempt recipients. However, a broker may treat a customer as a U.S. digital asset broker only if that customer provides the broker with a certification on a properly completed exemption certificate (Form W-9) that the customer is a U.S. digital asset broker. Until the Form W-9 is updated to allow for the certification of the U.S. digital broker exemption, a separate statement may be provided by the exempt digital asset broker.

In practice, this new class of exempt recipients for U.S. digital asset brokers is meant to accommodate the multiple broker rule. If more than one broker effects a sale of a digital asset on behalf of a customer, then the broker responsible for first crediting the gross proceeds on the sale to the account or wallet of the customer is required to report the sale. The broker that did not first credit the gross proceeds on the sale to the account or wallet of the customer is not required to report the sale if prior to the sale that broker obtains a certification on a properly completed exemption certificate that the broker first crediting the gross proceeds on the sale is a U.S. digital asset broker (other than a registered investment advisor).

In a contemporaneous guidance, brokers also received a list of certain transactions that they will not be required to file or furnish Form 1099-DA until Treasury and the IRS publish additional guidance. Note that the exemption is only for broker reporting on Form 1099-DA and, thus, does not cover reporting that may be required under other information reporting provisions (e.g., Form 1099-MISC or Form 1042-S). Notice 2024-57 identified these transactions to include:

- Wrapping and unwrapping transactions
- Liquidity provider transactions
- Staking transactions
- Transactions described by digital asset market participants as lending of digital assets
- Transactions described by digital asset market participants as short sales of digital assets
- Notional principal contract transactions.

In addition, the IRS will not assert penalties under section 6721 (failure to file correct information returns) or section 6722 (failure to furnish correct payee statements) of the Internal Revenue Code with respect to these specified transactions. Aligning with the final regulations, this notice is effective for transactions occurring on or after January 1, 2025.

Information Required to be Reported

Customer Information	<ul style="list-style-type: none"> • Name • Address • Taxpayer identification number (TIN)
Digital Asset Information	<ul style="list-style-type: none"> • Name • Number of units sold • Sale date • Amount of gross proceeds (after reduction for the allocable digital asset transaction costs) • Whether the sale was for cash, stored-value cards, or in exchange for services or other property • Committee on Uniform Security Identification Procedures (CUSIP) number of security sold (if applicable) or other security identifier number • Information Related to Options • Information Related to Debt Instruments

	<ul style="list-style-type: none"> • For each sale of a digital asset that was held by the broker in a hosted wallet on behalf of a customer and was previously transferred into an account at the broker (transferred-in digital asset) <ul style="list-style-type: none"> – Date of such transfer in – Number of units transferred in by the customer • Whether the broker took into account customer-provided acquisition information from the customer or the customer's agent when determining the identification of the units sold (without regard to whether the broker's determination with respect to the particular unit sold was derived from the broker's own records or from that information) • Any other information required by the form or instructions
--	--

Noticeably absent from these information requirements are certain data elements that were outlined in the proposed regulations. Industry participants provided comments regarding the burdensome nature and administrability of certain information required to be reported in the proposed regulations. As such, the final regulations adopted these recommendations with a few changes. The requirement to report the time of the transaction was removed entirely from the final regulations, as there were concerns relating to reconciling different times for customer transactions and backup withholding deposits.

Although the final regulations remove the obligation to report transaction ID and digital asset wallet address information, brokers will need to maintain this information in their records. The IRS regards this information as important for enforcement efforts, particularly in the event a taxpayer refuses to provide it during examination. To accommodate this, the final rules require brokers to collect these details with respect to the sale of a digital asset and retain them for seven years from the due date for the related information return filing. It is important to note that this collection and retention requirement will not apply to digital assets that are not subject to reporting due to special reporting methods as provided in final regulations. This seven-year period is intended to cover the six-year statute of limitations for substantial omissions from gross income that would begin on April 15 (individual taxpayer filing date for Federal income tax returns) which is later than the reporting deadline for Form 1099-DA on March 31.

The IRS intends to monitor the information reported on digital assets and the extent to which taxpayers comply with providing this information when requested by IRS personnel as part of an audit or other enforcement or compliance efforts.

Draft 2025 Form 1099-DA

On April 18, 2024, the IRS published a draft 2025 Form 1099-DA with a caveat that the form may change. The form was published prior to the final regulations, which means that some of the information required to be reported on the form does not align with the final rules. On June 28, 2024, in a contemporaneous announcement with the final regulations, the IRS stated that an updated Form 1099-DA is 'soon-to-be-released.'

On August 8, 2024, the IRS published an updated draft 2025 Form 1099-DA. This draft reflects updates from the final regulations and includes the transitional relief described in Notice 2024-56, Notice 2024-57, and

Revenue Procedure 2024-28. Although largely similar to the April 2024 draft, the August 2024 draft includes adjustments to box numbers and the following notable (but not exhaustive) changes:

Information required in April 2024 draft, but removed in August 2024 draft:

- Explanation if no recipient taxpayer identification number (TIN)
- Broker type involved in transaction
- Time requirements for digital assets acquired or sold
- Checkboxes related to non-cash proceeds
- References to the 2023 lookback date
- References to Transaction ID (TxID)
- References to digital asset address
- References to transactions not on a distributed ledger

Information added in August 2024 draft:

- Checkbox to indicate proceeds are from transaction involving a Qualified Opportunity Fund
- Checkbox to indicate if broker relied on customer-provided acquisition information
- Checkbox to indicate that a digital asset is a noncovered security (aligning with transitional relief)
- Checkbox to indicate if gross proceeds is an aggregate amount for the optional reporting method for qualifying stablecoins and specified NFTs¹ and the number of said transactions

With a new second draft of the Form 1099-DA, brokers will need to begin contemplating how they will collect information required to be reported on digital asset sales starting on January 1, 2025. Since the form is not in its final revision, there will be little time to update information reporting packages to accommodate any additional changes to the draft.

Penalty Relief

To accommodate the limited time brokers will have to develop appropriate procedures to comply with the reporting requirements described in the final regulations, the IRS announced transitional relief in Notice 2024-56. In it, the IRS stated that it will not impose penalties under sections 6711 (failure to file an information return with the IRS) and 6722 (failure to furnish a payee statement) on brokers that fail to file information returns and furnish payee statements under the final regulations with respect to sales of digital assets effected during calendar year 2025, so long as these brokers make good faith efforts to file accurate and timely Forms 1099-DA and furnish accurate and timely payee statements.

The IRS did not state the exact criteria for defining 'good faith efforts,' but the Notice did mention that for these purposes, good faith efforts do not include any filing of returns or furnishing of payee statements made by the broker after the later of the date that the IRS first contacts the broker concerning the examination of such broker or one year after the original due date for filing such returns.

This penalty relief in conjunction with the identified transactions in Notice 2024-57 that brokers do not have to report (yet), are intended to assist industry participants as they prepare to update and implement systems and

¹ KPMG intends to publish a separate article that addresses qualifying stablecoins, specified NFTs, and the optional reporting method for sales of the same.

processes for the 2025 reporting season with the understanding that additional rules are forthcoming in other packages of regulations.

Concluding Thoughts

The Preamble to the final regulations opines that broker information reporting on digital asset transactions will lead to higher levels of taxpayer compliance. This assumes that if brokers send this information to taxpayers, then the taxpayer will prepare more accurate Federal income tax returns with less inadvertent errors, intentional omissions, or misstatements shown on those returns.

Broker reporting for digital assets is set to begin with reporting calendar year 2025. Efforts by brokers will need to be accelerated in order to meet this aggressive 2025 timeline. The IRS has provided some relief for 2025, but only so long as the broker makes good faith efforts to comply with the new rules. Since there are no criteria for what this means, brokers may need to comply as best they can in order to meet these new requirements – even where certain items (such as a final Form 1099-DA and instructions) are not yet finalized.

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

kpmg.com/socialmedia



The information contained herein is not intended to be "written advice concerning one or more Federal tax matters" subject to the requirements of section 10.37(a)(2) of Treasury Department Circular 230.

The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

© 2023 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. NDP378103

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.