Digital Assets: From Crypto to Compliance

KPMG Information Reporting & Withholding
Tax Services

IRS Published FAQs about Broker Reporting

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On October 30th, the Internal Revenue Service (IRS) published *Frequently asked questions (FAQs) about broker reporting*, on its website. These FAQs clarify the obligations under Section 6045 and its accompanying regulations for brokers that effect transactions in digital assets. They will affect Form 1099-DA filings for the 2026 tax year and beyond.

Reporting Obligations for Brokers

Custodial Brokers: If a custodial broker only transfers customer digital assets to another platform for sale (without executing the sale themselves), they do not have a reporting obligation under Section 6045.

Digital Asset Kiosks: Businesses operating kiosks that allow customers to sell or exchange digital assets for cash, stored-value cards, or other digital assets are considered brokers and must file Form 1099-DA and provide payee statements.

> KPMG Observation: Organizations that offer custodial digital asset services must clearly categorize their operations to avoid effecting a sale that could create unintended reporting obligations.

Customer-Provided Acquisition Information

Use for Lot Identification: Custodial brokers may use customer-provided acquisition information from a transferring broker for lot identification and ordering purposes only. This information cannot be used to report cost basis on Form 1099-DA.

Reporting Requirements: If any customer-provided acquisition information is used to determine which units are sold, brokers must check Box 8 on Form 1099-DA, even if the sale order was not changed for a specific lot. Box 8 should not be checked for sales of newly transferred-in units unless new acquisition information is provided for those units.

KPMG Observation: Custodial platforms will need to implement systems to track and flag which information is being used for lot ordering only. Reconciling and validating transfer statements from multiple brokers could be operationally complicated.

Reporting Sales of Transferred-In Digital Assets

Single Transaction Reporting: If all transferred-in digital assets are sold in one transaction, brokers may report the entire sale on a single Form 1099-DA. Box 12b should be left blank if assets were transferred-in on multiple dates.

Basis Reporting: Brokers may use customer-provided information for lot ordering but cannot rely on it for basis reporting of transferred-in assets.

Covered vs. Noncovered Securities

Form 1099-DA Filing Options: Reporting all units on a single Form 1099-DA prevents checking Box 9 for noncovered securities, which may expose brokers to penalties under Sections 6721 and 6722 for voluntary basis reporting. Alternatively, filing separate Forms 1099-DA for each purchase lot allows Box 9 reporting for noncovered units and preserves penalty relief.

NFT Transactions

Minted vs. Non-Minted NFTs: For customers who both mint and sell specified NFTs, brokers should file two separate Forms 1099-DA: One for minted NFTs (aggregate gross proceeds in Box 11c; Box 1f left blank); and one for non-minted NFTs (proceeds reported in Box 1f).

Optional NFT Reporting: Brokers may use the optional NFT reporting method even if only one specified NFT was sold, leaving Boxes 1d, 1e, 1g, 2, 5, 6, 8, and 9 blank.

KPMG Observation: This type of reporting with multiple boxes may prove tedious for most organizations. They will need robust logic in reporting systems to manage multiple lots and transfer-in dates, NFT first sales versus secondary sale distinctions, and the optional basis reporting and penalty relief in Box 9.

Transaction Fees Paid in Digital Assets

Basis Determination: Brokers determine the basis of fee units using the customer's lot selection. If not specified, apply the FIFO (first-in, first-out) method.

Withheld Units: If transaction fees are paid by withholding units from assets received in exchange, those units are treated as specifically identified from the acquired units and are not reported as sold on Form 1099-DA.

KPMG Observation: Custodial platforms will need to track fee-related disposals separately in order to avoid misreporting them as sales.

Stablecoin Stabilization Test

3 Percent Test: A digital asset does not fail the 3 percent stabilization test if its value exceeds the target by more than 3 percent in only a single trade during any 10-day period. Failure occurs only if the fluctuation exceeds 3 percent on at least one trade each day in a consecutive 10-day period.

Platform Evaluation: Brokers may evaluate stabilization using only sales on their own platform. A guaranteed $1 purchase policy on the platform allows a stablecoin designed to track the U.S. dollar to meet the stabilization mechanism test.

> KPMG Observation: Stablecoin issuers will be able to leverage platform-level guarantees for compliance with operational NFT/stablecoin reporting rules.

KPMG Observation and Background

The IRS FAQs provide clarity on a few key issues, but industry participants will need to exercise care when designing systems and operational controls for compliance. Custodial platforms may have some challenges related to Form 1099-DA reporting of digital asset sales. The reporting obligations appear to be rather precise and even minor operational nuances may impact compliance and penalty relief (e.g., checking Box 9 for noncovered securities). These platforms will need to implement expansive data collection, validation, lot-tracking systems for transfer-in data, lot ordering, NFT classification of minted or secondary, and optional basis reporting.

Reference

For further information, see the IRS Frequently asked questions about broker reporting, here.

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