Digital Assets: From Crypto to Compliance

KPMG Information Reporting & Withholding Tax Services

IRS Released Updated Draft of 2026 Instructions for Form 1099-DA

IRP e-Alerts | Issue Issue Number: 2025–74 | November 25, 2025

On November 18th, the Internal Revenue Service (IRS) issued an updated draft of the 2026 instructions for Form 1099-DA, *Digital Asset Proceeds from Broker Transactions*. The updated instructions did not include any substantive changes compared to the previous version issued last month.

However, there were a few clarifications made:

– **Gross proceeds reporting.** The previous wording could have been misconstrued to read that gross proceeds would only be required to be reported for covered securities. The updated draft instructions emphasize that for 2026 and beyond brokers must report gross proceeds for all *digital assets* and basis information for covered securities. Reporting basis for noncovered securities remains voluntary.

  - Covered digital assets are those acquired on or after January 1, 2026, in a manner that gives the broker the information needed to track basis (e.g., customer buys BTC on an exchange in March 2026).
  - Noncovered digital assets are those acquired before basis reporting becomes mandatory or obtained in a manner where the broker does not receive the necessary basis information (e.g., BTC purchased in 2024 and sold in 2026, assets acquired via decentralized exchanges, self-custody, mining, staking rewards, etc., then later transferred to a broker without basis documentation).

– **Reporting exemption.** The draft instructions list scenarios in which brokers are not required to, but may, file Form 1099-DA. Previously, that section of the instructions concluded by noting that this reporting exception does not apply to compensation earned by participants in these transactions. The updated instructions now note that this reporting exception does not apply to **rewards or other** compensation earned by participants in these transactions.

– **Lot selections.** Under "Specific Instructions," *the Identification of digital assets* section now notes that, under current law, custodial brokers may use customer-provided acquisition information solely for lot-selection purposes. This information cannot be used to report cost basis or acquisition dates on Form 1099-DA.

KPMG Observation and Background

The recent updates to the draft 2026 instructions align with the clarification on lot selection outlined in the IRS Frequently Asked Questions (FAQs) on broker reporting, published on the IRS website on October 30. The FAQs also clarified that if any customer-provided acquisition information is used to determine which units are sold, brokers must check box 8, Check if broker relied on customer-provided acquisition information, 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. For further information, see KPMG IRP e-Alert #2025-69, here. Custodial platforms will need to implement systems to track and flag information used exclusively for lot ordering. Reconciling and validating transfer statements from multiple brokers could be operationally complicated.

As noted above, basis reporting will be required by certain brokers for transactions involving covered digital assets (i.e., covered securities) occurring on or after January 1, 2026. For noncovered digital assets, brokers are not required to report basis information but may choose to do so voluntarily. If they elect to report, checking box 9, *Check if digital asset is a noncovered security*, is essential to indicate noncovered status and avoid penalties. In addition, for sales involving qualifying stablecoins or specified nonfungible tokens (NFTs), brokers using the optional reporting method are not required to report basis or certain other information.

Operational challenge. Many brokers and custodians will need to invest in new technology or upgrade existing systems to track digital asset acquisition information, lot selection, and cost basis. This is particularly challenging given the complexity, timing, and volume of digital asset transactions, as well as the need to reconcile information across multiple platforms.

Vendor and staff readiness. Tax reporting vendors and software providers will need to update their platforms to accommodate Form 1099-DA and the specific reporting nuances for covered and noncovered digital assets. Industry participants will need to educate staff and clients on the new requirements, especially around the distinctions between covered and noncovered assets and the implications for voluntary basis reporting.

Investor experience. Investors may receive different levels of information from different brokers, especially if some choose to report basis voluntarily for noncovered assets and others do not. This could lead to confusion and increased risk of reporting errors on individual tax returns. Investors may expect brokers to know their basis for older assets and may not understand the difference between covered versus non-covered distinction. Brokers should plan to provide simple and repeatable explanations in addition to tools for customers to input or store historical basis where appropriate and for their own purposes.

Transfer statements. Even after 2026, many digital asset transfers will arrive without the required transfer-statement information. Brokers will not be able to treat those assets as covered and basis reporting will remain optional for those assets. Moreover, the ability to treat assets as covered hinges on receiving compliant transfer statements from prior custodians. This could limit the portion of assets that are covered. The industry should expect costs and issues related to reconciliation and operation.

State reporting. As a reminder, Form 1099-DA is excluded from the Combined Federal/State Filing (CF/SF) program for the 2025 tax year. As a result, payors with state-level reporting obligations for digital asset transactions must be prepared to file Forms 1099-DA directly with applicable state agencies, potentially increasing administrative burden and requiring updates to filing procedures. Investors in certain states may face delays or discrepancies in state tax reporting, increasing the administrative burden on both brokers and taxpayers. It remains to be seen if Form 1099-DA will be added to the CF/SF program for the 2026 tax year.

Regulatory Uncertainty. There is still time for the IRS to issue additional guidance, as industry groups are actively engaging with regulators to seek clarifications and advocate for operational relief.

Reference

For further information, see the updated draft 2026 Instructions for Form 1099-DA, here.

To learn more about these updates or to sign up for IRP e-Alerts, contact:

Laurie M. Hatten-Boyd
206-213-4001
lhattenboyd@kpmg.com

Kelli Wooten
404-739-5888
kwooten@kpmg.com

Elis A. Prendergast
212-954-1968
eprendergast@kpmg.com

Meghan M Anderson
585-454-1644
meghananderson@kpmg.com

Jesse Eggert
202-533-5512
jeggert@kpmg.com

Philip Garlett
415-963-5179
pgarlett@kpmg.com

Paul Malboeuf
212-954-1267
pmalboeuf@kpmg.com

Andrew McQuilkin
617-988-5857
amcquilkin@kpmg.com

Mark Naretti
212-872-7896
marknaretti@kpmg.com

Gerard Rose
203-356-9800
gerardrose@kpmg.com

Tara Thomas
212-954-6703
tarathomas@kpmg.com

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

Learn about us: **kpmg.com**