



Digital Assets: From Crypto to Compliance

KPMG Information Reporting & Withholding
Tax Services

IRS Issued Draft Version of Form W-9

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On September 17th, the Internal Revenue Service (IRS) published a draft version of Form W-9, Request for Taxpayer Identification Number and Certification, with a revision date of January 2026. The draft form primarily reflects updates implementing the final regulations on broker reporting of digital asset sales along with clarifications addressing taxpayer identification number (TIN) requirements for sole proprietors and disregarded entities.

The key updates to the draft Form W-9 are as follows:

New Certification for U.S. Digital Asset Brokers: Part II, Certification, now includes a checkbox allowing a broker to certify that it qualifies as a U.S. digital asset broker that is exempt from information reporting.

KPMG Comments

The final regulations on digital assets tax information reporting introduced a new exempt recipient category for U.S. digital asset brokers, other than certain registered investment advisers. This exemption is relevant where multiple brokers are involved in the sale of digital assets (i.e., the multiple broker rule designed to avoid duplicate or overlapping reporting obligations). A broker is not required to report a sale effected for a second broker that is a U.S. digital asset broker; however, this exemption is not automatic. The first broker cannot treat the second broker as a U.S. digital asset broker unless the second broker provides a certification on a properly completed exemption certificate (generally, a Form W-9) that the customer is a U.S. digital asset broker. For more details on documentation and information reporting requirements under the final regulations, see KPMG IRP alert 2024-52, [here](#).

As anticipated, the draft Form W-9 has been updated to include this certification for U.S. digital asset brokers. Until the revised Form W-9 is finalized and becomes effective, a broker may rely on a written statement from the second broker that it is a U.S. digital asset broker within the meaning of § 1.6045-1(g)(4)(a)(A)(1) (other than a registered investment adviser) if the written statement is associated with the Form W-9, or is separately signed by that second broker under penalties of perjury. This alternative certification method remains valid until one year after the IRS finalizes the revised Form W-9.

While this update was anticipated and provides clarity on broker responsibilities, it is noteworthy that the IRS did not simply introduce a distinct exempt payee code for this category without adding the new checkbox certification. Most payors and withholding agents use exempt payee codes to automate their systems. A new exempt payee code would have fit seamlessly into existing systems.

A new checkbox forces brokers and compliance teams to parse an additional field that may not fit existing payee frameworks. Most broker compliance systems were built based on the structure of the current (and prior revisions of) Form W-9. A checkbox-based exemption does not integrate as easily unless systems are rewritten to flag and track this new field. This may require manual validation or system patches. An exemption code would have significantly reduced operational burden and simplified system updates for brokers adapting to the new reporting framework.

Industry participants and advocacy groups that find this new checkbox to be burdensome should provide comment to the IRS while Form W-9 is still in draft form. Comments should include alternatives that the industry may find more beneficial.

New Exempt Payee Code: Code 14 has been added to the list of exempt payee codes to be used on Line 4, Exemptions. The new code applies to payees involved in digital asset transactions that are exempt from backup withholding under the transitional relief provided under Notice 2025-33, which remains in effect through calendar year 2026.

KPMG Comments

Notice 2025-33 (see [here](#)) extended for an additional year certain transitional relief initially provided in sections 3.01, 3.02, and 3.06 of Notice 2024-56. In particular, the notice extended the backup withholding relief under section 3.01 so that digital asset sales effected by brokers in calendar year 2026 are not subject to backup withholding and associated penalties. For a detailed discussion on Notice 2025-33, see KPMG IRP e-Alert #2025-33, [here](#).

The addition of the new exempt payee code 14 during the transitional relief period is puzzling. Notice 2025-33 extended the backup withholding relief for digital asset sales through 2026 regardless of the exempt status of the payee. The introduction of new Code 14 implies that brokers may be expected to use this code when they do not impose backup withholding; however, the form does not indicate whether it is required. If this is the case, the new code would narrow the intended scope of the relief and create unnecessary operational complexity during a period intended to facilitate compliance readiness. It is unclear if this new code will be required to turn off backup withholding, which would significantly minimize the relief provided in Notice 2025-33.

Industry participants and advocacy groups should consider requesting that the IRS clarify or state explicitly whether backup withholding relief applies regardless of whether exemption code 14 is reflected on the form in order to preserve the full benefit of Notice 2025-33. As an alternative, another recommendation may be to defer using this code until after 2026, when normal backup withholding rules apply.

Updated TIN Reporting Requirements for Sole Proprietors and Disregarded Entities:

Sole proprietors are required to provide their Social Security Number (SSN), while single-member Limited Liability Companies (LLCs) that are disregarded as entities separate from their owners must report the owner's TIN. If the direct owner is also a disregarded entity, the TIN of the first owner that is not disregarded for federal tax purposes must be reported. Notably, payees must provide the SSN of the individual owner for a sole proprietorship, rather than the sole proprietorship's EIN. Similarly, for a disregarded entity, payees must provide the TIN of the entity's owner and not the EIN of the disregarded entity.

KPMG Comments

Previously, a sole proprietor had the option to provide either their SSN or an EIN, depending on how it was operating. The draft Form W-9 appears to restrict this rule by requiring sole proprietors to enter an SSN.

For a single-member LLC that is a disregarded entity, the IRS instructions have required that the SSN or EIN of the owner (not the LLC's EIN) is provided, though it encouraged the use of the SSN. The draft Form W-9 appears to clarify this rule. With the updated rules, it is unclear whether payors will have to redocument sole proprietors that had previously provided an EIN.

Payors should review their existing Forms W-9 for sole proprietors and disregarded entities, especially where the TIN provided is an EIN and not an SSN. If finalized, the Form W-9 will enforce stricter name/TIN alignment rules. The previously accepted forms may become invalid or trigger B-notices and TIN matching failures. Payors that utilize the IRS TIN Matching Program should consider revisiting all previously approved name/TIN matches for sole proprietor and disregarded entity payees.

Should the form become finalized with this updated instruction, payors should then review their existing onboarding processes and update training regarding the names on Lines 1 and 2 and the TIN that is appropriate depending on the business structure. Payors may also need to consider logic for electronic Forms W-9 where the mapping differs from these new rules. Payors should review these items with their information reporting and withholding vendors accordingly.

Finally, payors should work with tax counsel to evaluate if any risk or exposure exists and to document good faith methodology to mitigate any potential for noncompliance. They should monitor for final form release and IRS clarification in the meantime.

Overall KPMG Observations

Payors and brokers should consider the following as they are reviewing the new draft Form W-9:

- Monitor IRS announcements for the effective date of any new revisions of Forms W-9 as well as any transition guidance, given this draft Form W-9 includes a few systemic update requirements. Begin discussions with IT and compliance vendors now to assess the scope of required changes, especially regarding the new checkbox and exempt payee code. Early planning can help avoid last-minute disruptions.
- If the new TIN requirements for sole proprietors and disregarded entities remain in the final Form W-9, payors and brokers may need to redocument existing payees. They should consider developing a communication plan to notify affected payees and request updated forms and maintain clear records of the methodology they used, especially where they rely on transitional relief or alternative certifications. This will be important in the event of IRS inquiries or audits.

- Discuss the draft form and its impact with industry groups or associations and coordinate comments to the IRS for greater impact. Collective feedback often carries more weight and can help clarify ambiguous requirements. Also, consider comparing your approach to peer organizations to ensure best practices and identify potential pitfalls early.
- Regularly use the IRS TIN Matching Program to validate name/TIN combinations, especially for sole proprietors and disregarded entities. This can help prevent B-notices and penalties.
- Monitor for IRS FAQs, notices, and further drafts. The Service may issue clarifications or additional instructions in response to industry comments.
- Confirm that third-party platforms are tracking these changes for onboarding or reporting and will update their systems accordingly

Reference

For further information, see the draft version of Form W-9, [here](#).

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