



# Digital Assets: From Crypto to Compliance

KPMG Information Reporting & Withholding  
Tax Services

## IRS Issues Notice 2026-20 Providing Transitional Guidance on the Specific Identification Rule for Broker Held Digital Assets

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On March 18, the Internal Revenue Service (IRS) released Notice 2026-20, extending for one additional year, through December 31, 2026, the temporary relief originally provided in section 4.02 of Notice 2025-7. During this extended “relief period,” eligible taxpayers may continue to use alternative methods to make an “adequate identification” under Treas. Reg. §1.1012-1(j)(3)(ii) for units of digital assets held in a broker’s custody that are sold, disposed of, or transferred.

### Background

Section 1012, as expanded by the Infrastructure Investment and Jobs Act, requires cost basis for “specified securities,” now including digital assets, to be determined on an account-by-account basis. Final regulations under Treas. Reg. §1.1012-1(j), effective for acquisitions and dispositions of digital assets on or after January 1, 2025, prescribe ordering rules for determining which units of a digital asset are treated as sold when a taxpayer holds multiple units with different acquisition dates or prices.

For units held with a broker, taxpayers generally may use specific identification by informing the broker, no later than the time of the transaction, which units are being sold (including via standing orders). If an adequate identification is not made, a default first in, first out (FIFO) method applies.

Because many custodial brokers were not yet fully able to accept and process specific identification instructions beyond basic standing orders, the IRS issued Notice 2025-7 to provide temporary relief in 2025. That relief allowed taxpayers to make an adequate identification on their own books and records rather than

communicating it to the broker. For further details on the original relief provided under Notice 2025-7. Notice 2026 20 extends that relief through December 31, 2026.

During this extended relief period, taxpayers may continue to use these alternative methods to make an adequate identification under Treas. Reg. §1.1012 1(j)(3)(ii), including where they are also relying on the Rev. Proc. 2024 28 safe harbor (once its conditions are satisfied).

## Scope of Relief

During the relief period, the temporary rules apply only to units of digital assets that are held in the custody of a broker and sold, disposed of, or transferred within that period. The relief does not extend to digital assets held outside of broker custody. For those in-scope broker held units, the notice provides alternative ways for taxpayers to make an “adequate identification” of which specific units are treated as sold, disposed of, or transferred for basis and holding period purposes.

## Alternative Identification Methods During the Relief Period

Instead of having to communicate a specific identification to the broker as required under Treas. Reg. §1.1012 1(j)(3)(ii), a taxpayer may during the relief period:

- Identify the specific units on the taxpayer’s own books and records, no later than the date and time of the sale, disposition, or transfer, using any identifier that is sufficient to establish the basis and holding period (e.g., purchase date and time or purchase price), or
- Record a standing order on the taxpayer’s books and records that specifies how units are to be selected (e.g., earliest acquired, latest acquired, highest basis), provided that the standing order contains enough detail to identify the units sold and is recorded before those units are sold, disposed of, or transferred.

If a taxpayer uses these book and records methods to make an adequate identification under the notice, the default rule in §1.1012 1(j)(3)(ii) that treats a broker offered single method (e.g., FIFO, last-in, first-out (LIFO), or highest basis) as a deemed standing order does not apply during the relief period.

Taxpayers that are transitioning basis under the Rev. Proc. 2024 28 safe harbor may only use this temporary relief after satisfying the revenue procedure’s conditions.

## Interaction with Broker Reporting

For federal income tax purposes, if a taxpayer has made an adequate identification on its books and records consistent with the notice, the units treated as sold, disposed of, or transferred are the units identified in those books and records, even if the broker’s Form 1099-DA or other reporting reflects different lots, acquisition dates, or basis. Conversely, if the taxpayer instead follows the standard rule and communicates a specific identification (including a standing order) directly to the broker by the time of the sale, disposition, or transfer, then for federal tax purposes the units treated as sold, disposed of, or transferred are the units specified to the broker. In either case, the taxpayer’s properly made identification, whether on its own books under the temporary relief or by communication to the broker under the regulation, controls the determination of which units were disposed of and thus what basis and holding period apply.

## End of the Relief Period

Taxpayers are allowed to use the temporary alternative identification methods in section 4.02 only for transactions that occur during the “relief period” (defined in section 3.03 of the notice as beginning on January 1, 2025, and ending on December 31, 2026). Once the relief period ends, taxpayers may no longer rely on those temporary rules. In particular, they cannot use the section 4.02 relief to treat units held in a broker’s

custody as adequately identified for any sales, dispositions, or transfers that take place after the relief period has expired. After that point, the regular rules in §1.1012-1(j)(3)(ii) apply.

## KPMG Observations

Although Notice 2026 20 is likely the final extension, as brokers are expected to fully support lot level identification by 2027, it serves as an important operational bridge with several practical implications.

## Short Term Impacts Through 2026

In the short term, the notice provides brokers with more time to build specific identification infrastructure. Many custodial brokers are still finishing systems that can accept and process customer level specific identification instructions for digital assets. Without the relief, brokers could have been forced to use FIFO, possibly creating a negative customer experience and outcome. The notice reduces pressure on system fixes, and should result in more robust, auditable infrastructure for specific identification, standing orders, and lot level tracking by 2027.

For now, the notice is very taxpayer-friendly, as they can use their own books and records to make an adequate identification (or to record standing orders), without having to communicate those identifications to the broker during the relief period. This is a win for sophisticated taxpayers, as they will be able to optimize basis selection (e.g., highest basis, loss harvesting strategies) even if the broker platform is not ready. On the other hand, the notice increases recordkeeping responsibilities. Taxpayers will need strong internal processes that:

- Timestamp identifications and standing orders,
- Maintain clear, contemporaneous lot level records, and
- Reconcile their internal basis tracking to broker Forms 1099 DA.

## Audit and Controversy

The IRS has accepted that mismatches between broker reports and taxpayer reporting will exist during the relief period. Still, taxpayers will need contemporaneous evidence (e.g., books/records, policies, timestamps) that their identifications are valid under the notice. Poor documentation could be vulnerable during audit, with the IRS potentially asserting FIFO and disallowing favorable basis selection. Exams may focus on how and when identifications were made, whether standing orders were in place before the relevant transactions, and consistency in the taxpayer's application of their chosen identification method.

## Post Relief Environment (2027 and beyond)

Once the relief period ends (absent further extension), there will be a stronger expectation that specific identifications are communicated to brokers in real time, aligning broker systems, taxpayer practices, and the regulatory framework under Treas. Reg. §1.1012-1(j).

Large custodial exchanges and brokers will be expected to operate full compliance infrastructures, including support for specific identification policies and standing orders and processes to reconcile and explain discrepancies between taxpayer records and Forms 1099-DA. Demand will likely grow for third-party or internal tools that can reconstruct lot-level activity independent of broker reporting, support tax positions in the event of examination, and facilitate reconciliations across multiple platforms and custodians.

## Overall Takeaways

Notice 2026-20 prevents a potential “cliff” in 2026 where many taxpayers would have been forced into FIFO solely because broker technology was not yet ready. It shifts near-term responsibility toward taxpayers’ own books and records, even as it signals that the long-term end state is broker-integrated specific identification. This creates a transitional window in which brokers and exchanges can finish systems and refine processes, while taxpayers can optimize basis methodologies; however, the complexity, reconciliation burdens, and documentation requirements are elevated.

Taxpayers and brokers should use this period to strengthen systems, governance, and documentation around digital asset basis tracking and specific identification in preparation for a more tightly aligned reporting environment starting in 2027.

## Reference

Notice 2026-20 can be found [here](#).

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