



Digital Assets: From Crypto to Compliance

KPMG Information Reporting & Withholding
Tax Services

IRS Issues Updated Draft Instructions for the Requester of Form W-9

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On February 2, the Internal Revenue Service (IRS) issued updated draft instructions for the Requester of Form W-9, Request for Taxpayer Identification Number and Certification, with a revision date of January 30, 2026. The updated draft instructions retain the substantive changes introduced in the prior version released on December 16, 2025.

The updated draft instructions include the following changes:

- The draft instructions clarify that a substitute Form W-9 will continue to be treated as valid even if it does not include the new checkbox under Part II, *Certification*, which allows a broker to certify that it qualifies as a U.S. digital asset broker exempt from information reporting. In that case, the digital asset broker certification is treated as unchecked, and a U.S. digital asset broker is treated as not having certified an exemption from reporting.
- Exempt payee code 14 was changed. Previously, exempt payee code 14 was going to be applicable for “A payee in a transaction involving digital assets exempt from backup withholding under Notice 2025-33 through calendar year 2026”. The updated exempt payee code 14 is now designated for “a U.S. digital asset broker (other than a registered investment adviser that is not otherwise an exempt recipient under Regulations section 1.6045-1(c)(3)(i)(B)(1) through (11)).”
- The previous version of the draft instructions stated that, in the case of a sale of a digital asset for a different digital asset (other than specified nonfungible tokens), backup withholding is required only on the amount the broker receives upon the immediate liquidation of 24% of the customer’s received digital asset. The draft instructions have been updated to clarify that this only applies if such liquidation is undertaken immediately after the transaction giving rise to the backup withholding liability.

KPMG Observations

- The IRS's confirmation that a substitute Form W-9 remains valid even if it does not include the new digital asset broker certification checkbox under Part II, Certification, was a welcome development. This clarification reduces the immediate operational pressure on brokers and withholding agents who rely on substitute forms and allows for more deliberate planning as digital asset reporting obligations continue to evolve.
- Likewise, the removal of the prior description of exempt payee code 14 avoids unnecessary confusion in the application of the transitional backup withholding relief detailed in Notice 2025-33 (see [here](#)). The code in the previous version was to be used by payees involved in certain digital asset transactions that are exempt from backup withholding under the transitional relief provided under Notice 2025-33. However, as outlined in KPMG IRP e-Alert #2025-33, [here](#), Notice 2025-33 extended the backup withholding relief for digital asset sales through 2026, regardless of the exempt status of the payee. Therefore, the removal of the prior language was welcome.
- At the same time, the addition of exempt payee code 14 for U.S. digital asset brokers raises new questions. 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 it is a U.S. digital asset broker.

As anticipated, the draft Form W-9 and its instructions were updated to include this certification for U.S. digital asset brokers. However, industry participants expressed concern that this certification would be made via a new checkbox rather than via a distinct exempt payee code. As most payors and withholding agents already use exempt payee codes in their systems, a new exempt payee code would have fit seamlessly into existing systems, while a new checkbox forces brokers and compliance teams to parse an additional field that may not fit existing payee frameworks.

The addition of a U.S. digital asset broker to the list of exempt payee codes seems to address this concern. However, it is not entirely clear what the additional code accomplishes. Industry participants were hoping for an exempt payee code in lieu of the new checkbox, not in addition to it. The draft instructions do not clarify whether brokers will be required to obtain a form that includes both the new certification checkbox and exempt payee code 14 for the same exemption, which could create operational challenges.

- The continued use of a revision date that is now in the past (January 2026) for the draft instructions (which was also the revision date of the draft Form W-9 that was published in September) does not shed light on when the final versions of the form and instructions can be expected. Stakeholders should monitor further IRS updates.

Reference

For further information, see the updated draft Instructions for the Requester of Form W-9, [here](#).

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