



TaxNewsFlash

United States

No. 2026-065
March 18, 2026

Notice 2026-20: One-year extension of temporary relief for making adequate identification of units of digital assets held in broker's custody

The IRS today released [Notice 2026-20](#), extending for an additional year the temporary relief provided in [Notice 2025-7](#), allowing eligible taxpayers to rely on alternative methods for making an adequate identification, within the meaning of Treas. Reg. § 1.1012-1(j)(3)(ii), of units of digital assets held in the custody of a broker that are sold, disposed of, or transferred during the period beginning on January 1, 2026, and ending on December 31, 2026.

Background

The U.S. Treasury Department and IRS published final regulations (T.D. 10000) in July 2024 regarding information reporting under sections 6045 and 6050W, the determination of amount realized under section 1001 and basis under section 1012, and backup withholding under section 3406, for certain digital asset sales and exchanges.

Treas. Reg. § 1.1012-1(j) of the final regulations, which applies to all acquisitions and dispositions of digital assets on or after January 1, 2025, provides ordering rules for determining which units of the same digital asset should be treated as sold, disposed of, or transferred when a taxpayer holds multiple units of that same digital asset within the same wallet that were acquired on different dates or at different prices. For digital asset units held in the custody of a taxpayer's broker, Treas. Reg. § 1.1012-1(j)(3)(ii) generally permits a taxpayer to make an adequate identification of the units to be sold, disposed of, or transferred by specifying to the custodial broker, no later than the date and time of the sale, disposition, or transfer, the particular units of the digital asset to be sold, disposed of, or transferred by reference to any identifier that the broker designates as sufficiently specific to allow it to determine the basis and holding period of those units. Treas. Reg. § 1.1012-1(j)(3)(ii) also permits taxpayers to make an adequate identification of such units by using a standing order or instruction communicated to their custodial broker. Further, if the custodial broker offers taxpayers only one method of making a specific identification, for example by the earliest date on which units of the same digital asset were acquired, the latest date on which units of the same digital asset were acquired, or the highest basis, Treas. Reg. § 1.1012-1(j)(3)(ii) treats such method as a standing order or instruction.

For units held in the custody of a broker but for which the taxpayer does not make an adequate identification of the units sold, disposed of, or transferred in accordance with Treas. Reg. § 1.1012-1(j)(3)(ii), Treas. Reg. §

1.1012-1(j)(3)(i) treats such units as sold, disposed of, or transferred in order of time from the earliest date on which units of that same digital asset held in the custody of the broker were acquired by the taxpayer (“FIFO rule”).

Regardless of whether the taxpayer makes an adequate identification, in the case of digital assets exchanged for different digital assets, Treas. Reg. § 1.1012-1(j)(3)(iii) treats any units withheld for either the broker’s backup withholding obligations under section 3406, or for payment of services described in Treas. Reg. § 1.1001-7(b)(1)(ii), as coming from the units received in the exchange.

Contemporaneously with the issuance of the final regulations, the IRS issued Rev. Proc. 2024-28 providing guidance to taxpayers regarding how to transition from a universal or multi-wallet basis allocation methodology to a wallet by wallet or account by account basis allocation methodology. Specifically, subject to certain requirements, Rev. Proc. 2024-28 provides a safe harbor on which taxpayers may rely to allocate their units of unattached basis to a digital asset wallet or account that holds the same number of remaining digital asset units based on the taxpayer’s records of such unattached basis and remaining units so long as the allocation is reasonable. Rev. Proc. 2024-28 permits taxpayers either to make a specific unit allocation or to make a global allocation in order to allocate units of unattached basis, subject to various conditions.

Notice 2025-7

In response to concerns expressed by some custodial brokers, the IRS issued Notice 2025-7, which allows taxpayers, during calendar year 2025, to use additional methods for making an adequate identification within the meaning of Treas. Reg. § 1.1012-1(j)(3)(ii).

Notwithstanding the temporary relief provided in Notice 2025-7, some of custodial brokers still do not have in place the technology needed to accept specific instructions communicated by taxpayers. Consequently, some taxpayers may be temporarily unable to make adequate identifications in conformity with Treas. Reg. § 1.1012-1(j)(3)(ii), with the result that any units in the custody of such brokers that are sold, disposed of, or transferred before the necessary systems are in place would be determined under the FIFO rule without further temporary relief.

Notice 2026-20

To avoid this result, Notice 2026-20 extends the relief period specified in Notice 2025-7 through December 31, 2026, and consistent with Notice 2025-7:

- The notice does not prohibit taxpayers from complying with Treas. Reg. § 1.1012-1(j)(3)(ii) as originally prescribed.
- The notice does not affect how the safe harbor described in Rev. Proc. 2024-28 applies.
- Taxpayers relying on the safe harbor described in Rev. Proc. 2024-28 may also rely on the temporary relief described in section 4.02 of the notice once the applicable requirements of Rev. Proc. 2024-28 have been satisfied, including, in the case of taxpayers making a global allocation, the completion of the global allocation.

kpmg.com/socialmedia



The information contained in TaxNewsFlash is not intended to be "written advice concerning one or more Federal tax matters" subject to the requirements of section 10.37(a)(2) of Treasury Department Circular 230, as the content of this document is issued for general informational purposes only, is intended to enhance the reader's knowledge on the matters addressed therein, and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

KPMG International Limited is a private English company limited by guarantee and does not provide services to clients. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm.

Direct comments, including requests for subscriptions, to [Washington National Tax](#). For more information, contact KPMG's Federal Tax Legislative and Regulatory Services Group at + 1 202.533.3712, 1801 K Street NW, Washington, DC 20006-1301.

To unsubscribe from TaxNewsFlash, reply to [Washington National Tax](#).

[Privacy](#) | [Legal](#)