

Department of the Treasury
Attn: Melody Braswell,
Treasury PRA Clearance Officer

Via EMAIL to www.reginfo.gov/public/do/PRAMain. Fi

Dear Ms. Braswell:

The Digital Chamber (“TDC”) appreciates the opportunity to respond to the Treasury Department’s notice soliciting comments concerning information collection requirements related to Form 1099-DA. We are pleased to provide industry input on this important information collection. TDC respectfully submits our comments below.

TDC is the world’s largest blockchain trade association. Our mission is to promote the acceptance and use of digital assets and blockchain technology. Through education, advocacy, and close coordination with policymakers, regulatory agencies, and industry members across the US, we are working to foster a sound regulatory environment that allows this innovative industry, its technological advances, and the economic opportunities it creates to thrive within the US.

Feedback and Comments

Regarding the draft Form 1099-DA, TDC commends the Internal Revenue Service (IRS) for introducing a form that promotes more accurate, standardized, and streamlined reporting for digital asset transactions. This will help alleviate challenges tied to inconsistent reporting, incomplete information, and the lack of third-party verification. However, certain provisions raise questions that will require more clarity to ensure compliance.

The purpose of the section 6045 expansion to digital assets is to reduce the tax gap by providing tax-relevant information reporting on digital asset transactions to the IRS and by providing useable information to taxpayers for accurate completion of their tax returns.¹ It is not clear how certain sections of the draft Form 1099-DA and its related instructions further those goals.

¹ See, e.g., *Gross Proceeds and Basis Reporting by Brokers and Determination of Amount Realized and Basis for Digital Asset Transactions*, 88 Fed. Reg. 59,576, 59,580 (August 29, 2023). The preamble to the proposed regulations discusses the reason for new information reporting for digital assets to be, in part, to define and reduce the tax gap by allowing the IRS to “more easily identify taxpayers with digital asset transactions with digital asset transactions that are otherwise difficult to discover” and to allow taxpayers to “use the furnished information to avoid both inadvertent errors and intentional misstatements.”

As a general matter, we urge the IRS to reassess the volume of information requested, especially where the purpose or utility is unclear, the specific instances of which are detailed further below. From our perspective, such information does not meaningfully further the goals of section 6045, and maintaining these reporting requirements may complicate system design, result in unnecessary information collection, and burden brokers in their efforts to comply. There is further risk that these fields will confuse taxpayers in meeting their obligations to report their income on their tax returns.

Our feedback with respect to the draft Form 1099-DA and related instructions is detailed below.

Recommendations Relating to Information Requested

Box 1a

Box 1a requires a code for the digital assets being reported. Based on the draft Instructions for the Form 1099-DA, the broker must use the code issued by the Digital Token Identification Foundation (DTIF). The codes are publicly available on the DTIF's webpage (dtif.org). However, current IRS guidance on the income taxation of digital assets is limited and does not require the same level of granularity as the DTIF registry provides.

In addition, we note that there are sometimes multiple codes for the same digital asset on the DTIF registry in order to capture distinctions such as wrapped tokens or tokens on a different blockchain network. With multiple codes appearing as search results, there is a substantial risk of selecting the incorrect code, leading to inadvertent reporting errors. Therefore, we believe using the codes issued by DTIF may cause confusion for brokers and taxpayers alike.

Furthermore, coding different digital assets by per the DTIF list would compel brokers to allocate resources to ensure that the relevant data is captured and properly classified for reporting purposes. Yet, without visibility into DTIF's internal processes and quality control, the requirement to rely on a non-governmental third-party website adds complexity and potential risk with limited value in return for the government. There is no clarity on how frequently DTIF updates its list or when additions or subtractions take effective. There is an added practical risk of reliance on a third-party maintained list, such as unavailability of the list due to server outages or other disruptions that may impact brokers' ability to timely report.

We strongly believe that no third-party coding system should be mandated in this reporting framework. Relying on a non-governmental entity to provide codes introduces avoidable confusion and complexity without clear benefits for brokers, taxpayers, or the government.

Box 7

Brokers are required to check Box 7 of Form 1099-DA if the customer received only cash gross proceeds from the sale of digital assets. Neither the statute nor the final digital asset reporting regulations require different reporting for cash and non-cash proceeds from the sale of digital assets. Current guidance on the income taxation of digital asset transactions also does not appear to distinguish between cash and non-cash proceeds. Reporting of this information on line 7 of Form 1099-DA seems unnecessary. Therefore, we recommend that inclusion of this box be reconsidered in an effort to simplify the form and resulting broker compliance obligations.

Box 8

Brokers are required to check Box 8 if they relied on customer-provided acquisition information to identify which units were sold by a taxpayer. We do not think that taxpayer reporting is assisted by this information, and it is not indicative of taxpayer noncompliance. Assuming otherwise complete Form 1099-DA reporting, the taxpayer will be identified to the IRS, and all requisite information to ensure taxpayer's reporting is accurate is already included on the form. We, therefore, recommend that this box be removed.

Box 10

For brokers providing custodial wallet services for digital assets that qualify as covered securities, the draft Form 1099-DA requires inclusion of acquisition date, cost basis, and gain or loss type, all of which is relevant for accurate customer tax reporting and is consistent with the existing Form 1099-B requirements. The draft Form 1099-DA includes an additional field, Box 10, requiring a broker to include a justification for not reporting the covered security information. The current listed reasons are the following:

- The broker did not provide custodial services for the digital asset;
- The broker provided custodial services and it was transferred in to the broker; or
- The broker provided custodial services and it was acquired prior to 2026.

The IRS should consider removing this box because it unnecessarily complicates reporting. The box provides no meaningful information to the taxpayer, and it is unclear

whether it provides any meaningful information to the IRS either, beyond that which is gleaned from the inclusion or absence of covered security information in the other boxes. It is also unprecedented for Form 1099 filers to have to justify their reporting conclusions within the form. This point is most easily illustrated by the Form 1099-B, which does not require a broker to list one of the many reasons a traditional security is treated as noncovered.

If this box is included in the final Form 1099-DA, we note that the list is not exhaustive and does not include, for example, the following reasons:

- The digital asset is not covered because it was acquired for non-broker services (e.g., received as compensation for providing services as an employee); or
- The sales of the digital asset are reported using the optional aggregate reporting method.

There are likely additional explanations for a digital asset to be noncovered. The IRS may consider including “Other” as an option in Box 10 to capture any other reasons for the non-covered status of the digital asset. It is critical that this “Other” field does not include a free-text explanation because of the significant burden free-text fields create in high-volume reporting. Furthermore, given that future regulations are expected under sections 6045 and 6045A, the “Other” box would cover any additional reasons for the noncovered status that are not currently available.

Recommendations Related to Instructions

Boxes 1f and 1g

We request that the IRS provide additional guidance on the proceeds reporting instructions and cost basis. Currently, there is no in-depth discussion of how gross proceeds and cost basis are calculated or should be reported for Form 1099-DA purposes. Under the specific instructions for Box 1g, there is a reference to section 1001 and 1012 regulations outlining the impact of transaction costs in the case of an exchange of digital assets, the rules for which are inapplicable to the cost basis reporting on such transaction (as the transaction costs impact proceeds). We recommend that the instructions be revised to more closely align with the established structure of section 6045 rules for proceeds and cost basis reporting. Specifically, the instructions should delineate distinct rules for digital asset sales involving different transaction types, such as, sales in exchange for cash, other digital assets, goods or services, or other related scenarios.

Box 8

The instructions should be updated to clarify that digital asset brokers are not permitted to include customer-provided cost basis information on Form 1099-DA. Although not in contradiction, the language on pages 3 and 4 discussing optional reporting of covered security information without penalty could lead to confusion where a broker sells a transferred-in digital asset, identifying the unit sold using customer-provided acquisition information (and the timely identification of the unit by the customer). While the broker may have used the customer's cost basis to reasonably support the lot selection, the broker is not permitted to report that cost basis figure without penalty. Further clarity on this point would avoid unintentional violations by brokers.

Boxes 12a and 12b

We believe that further detail is needed in the instructions relating to Boxes 12a and 12b, which currently only provide limited information for proper completion. The instructions do not address whether separate forms are required for a sale that includes a mixture of digital assets that were transferred-in to the broker at various dates and times. The existence of Box 12a implies that a single Form 1099-DA can include sales of both transferred-in and non-transferred digital assets (total number of units listed in Box 1c, with number of units transferred in Box 12a). However, unlike Box 1d, where the box can be left blank if the assets sold were acquired on a variety of dates, no such instruction exists for Box 12b. We recommend using the rule for Box 1d, allowing a sale of digital assets with multiple transfer dates to be reported on the same Form 1099-DA with Box 12b left blank.

Suggestions for Clarifying Optional Aggregate Reporting

The IRS should provide more detailed guidance in the instructions for Form 1099-DA regarding reporting using optional aggregate reporting method for qualifying stablecoins and specified NFTs. The current version of the draft instructions for the broker and the instructions for the recipient included on the draft Form 1099-DA do not adequately address the applicability and relevance of certain boxes on the Form 1099-DA. While the draft Instructions for Form 1099-DA include a comment on page 3 indicating that acquisition dates or basis amounts do not need to be reported, there are no further box-by-box instructions, whether in a dedicated section or under each relevant box instruction, clarifying whether the box should be completed when using the optional reporting methods. For example, it is unclear what information should be populated in Boxes 1a (digital asset code), 1b (digital asset name), and 1e (date sold) where reporting is aggregated. Box 8 (customer-provided acquisition information) and Boxes 12a and 12b (transferred-in information) may also not be relevant for aggregate

reporting, or it may be the case that the information needs to be populated in a specific way where the information is relevant for a portion of the transactions throughout the year. As noted above, there is also no option in Box 10 (reason for noncovered security status) applicable to the optional reporting methods, which may mean Boxes 9 (noncovered security checkbox) and 10 do not need to be checked for aggregate reporting.

For all of these cases, additional detail should be provided in the instructions. We suggest designation of a separate section of the instructions outlining the requirements for each of the two optional aggregate reporting methods for qualifying stablecoins and specified NFTs.

Box 11c

Box 11c requires brokers that are aggregate reporting specified NFTs to separately state “gross proceeds attributable to first sales by a creator or minter.” As clarified in the draft instructions, these proceeds amounts should reduce the amount reflected in Box 1f (proceeds). The final digital asset regulations do not define “first sales by a creator or minter” or address any unique tax implications of such initial sales. Similarly, the current tax guidance does not provide any specific rules for the income taxation of initial sales of NFTs. As a result, it is not immediately evident how brokers should differentiate specified NFT sales as initial or subsequent sales—such information may be known in certain cases but not in others depending on the relationship between the creator or minter and the broker facilitating the sale of the NFT. From the taxpayer’s perspective, it is also likely to lead to confusion in reconciling the aggregated proceeds in Box 1f, Box 11c, and their own records to appropriately capture tax-relevant information on their return. Without a clear value in receiving the bifurcation of proceeds from the IRS’s perspective, we recommend that this box be removed from the Form 1099-DA. Alternatively, the instructions should clearly define what is meant by these terms to facilitate compliance.

We are here to be a resource. The Digital Chamber welcomes any requests for further clarification or to engage in more detailed discussions regarding our feedback on these issues. We value ongoing dialogue between the Treasury Department and IRS and our organization. Please contact our team handling tax matters at Policy@digitalchamber.org. We appreciate the opportunity to contribute to this important matter.

Sincerely,



Cody Carbone
President
The Digital Chamber

cc: Sulolit Mukherjee, Executive Director, Compliance & Implementation, Office of Digital Asset Initiative, Internal Revenue Service
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