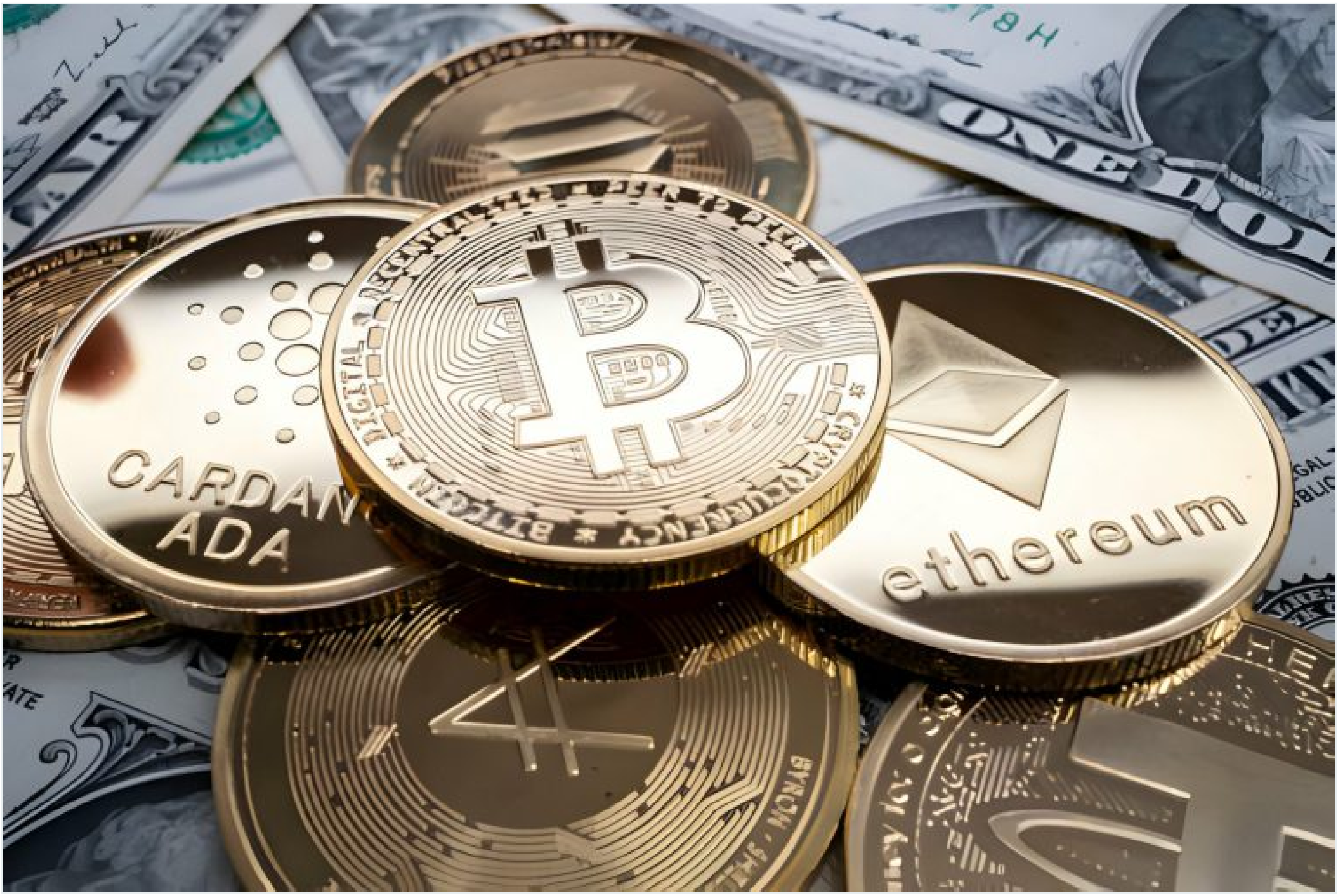
which brokers will use to report digital asset transactions.

Jason Bramwell • Apr. 19, 2024



The IRS on Friday posted on its website the highly anticipated draft Form 1099-DA, a new tax form that cryptocurrency brokers will begin using next year to report digital asset transactions.

The tax agency teased the forthcoming tax form last August when it issued proposed regulations that would require brokers to report sales and exchanges of digital assets by customers.

“These proposed regulations are designed to help end confusion involving digital

Brokers—defined by the IRS as “digital asset trading platforms, digital asset payment processors, and certain digital asset hosted wallets”—will be required to generate Form 1099-DA for each sale transaction and submit that information to the IRS and to their customers starting on Jan. 1, 2025.

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ONLY DRAFT April 18, 2024 DO NOT FILE

City or town, state or province, country, and ZIP or foreign postal code	1f Proceeds $	1g Cost or other basis $	Notice, see the **2025 General Instructions for Certain Information Returns.**
	1h Accrued market discount $	1i Wash sales loss disallowed $	
Account number	2 Check if basis reported to IRS ☐	3a Reported to IRS: ☐ Gross proceeds ☐ Net proceeds	
CUSIP number	3b	4 Federal income tax withheld $	
5 Check if loss is not allowed based on amount in 1f ☐ / 6 Gross gain or loss: ☐ Short-term ☐ Long-term ☐ Ordinary	7a Check if 1f includes cash proceeds ☐	7b Check if 1f includes non-cash proceeds ☐	
8 If 7b checked, type of non-cash proceeds	9 If 8 coded OTH, name and/or explanation of non-cash proceeds		
10a Check if digital asset is a noncovered security ☐	10b Digital asset is a noncovered security because: ☐ Broker did not provide hosted wallet services for it ☐ It was transferred in to broker ☐ It was acquired prior to 2023		
11a Sale transaction ID (TxID)			
11b Digital asset address	11c Number of units	11d Check if sale is not recorded on the distributed ledger ☐	
12a Transfer-in TxID number			
12b Transfer-in digital asset address	12c Number of units transferred	12d If transfer-in not recorded on the distributed ledger, provide transfer-in date and time	
13 / 14 State name	15 State identification no.	16 State tax withheld $ $	

Form **1099-DA** Cat. No. 73567I www.irs.gov/Form1099DA Department of the Treasury - Internal Revenue Service

Source: Internal Revenue Service

"For sales or exchanges of digital assets that take place on or after Jan. 1, 2025, the proposed regulations would require brokers, including digital asset trading platforms, digital asset payment processors and certain digital asset hosted wallet providers, to report gross proceeds on a newly developed Form 1099-DA and to provide payee statements to customers," the IRS said last August. "Brokers, in certain circumstances, would also be required to include gain or loss and basis information for sales that take place on or after Jan. 1, 2026, on these information returns and statements, so that customers have the information they need to prepare their tax returns."

Draft form 1099-DA captures unsurprising data points, such as date acquired, date sold, proceeds, and cost basis of crypto assets sold—information that is needed and helpful for the taxpayer to complete their crypto tax filings, Shehan Chandrasekera,

could drastically change how users interact with crypto platforms. The will change DeFi [decentralized finance] as we know it today."

After reviewing draft Form 1099-DA, Jessalyn Dean, vice president of tax information reporting at Ledgible, posted her first impressions on LinkedIn:

> - They have packed a lot of lines and boxes into this form.
> - As expected, the look and feel is similar to the Form 1099-B for reporting sales of traditional financial products (e.g. equities).
> - Most of the boxes line up as expected with the required information as listed in the proposed regulations from August 2023.
> - The inclusion of a "wash sale loss disallowed" Box 1i does not mean that crypto is subject to wash sale rules. It is included for purposes of digital assets that are also stock or securities already subject to wash sale rules (e.g. certain tokenized equities).
> - A Box 11d is included to indicate that a sale is not recorded on the distributed ledger. This is necessary because very often digital asset addresses or transaction IDs cannot be provided because transations occurred within internal record keeping systems.
> - Box 5 is for a broker to indicate that a loss is non-deductible due to a "reportable change in control or capital structure" and references Form 8949 and Schedule D Instructions. However, neither of those instructions give any guidance on what kind of events in crypto and digital assets could apply in these circumstances. They defer to the broker to simply figure it out in the dark with the further statement that "The broker should advise you of any losses on a separate statement."

The IRS noted that this early draft form release may change based on decisions made in response to comments received on the proposed regulations issued last August.

Public comments can be submitted to the IRS about draft or final forms, instructions,