

Cryptocurrency stakers must include rewards in gross income upon gaining control of them

- *The IRS rules that rewards from cryptocurrency staking must be included in gross income when the taxpayer can sell, exchange, or otherwise dispose of the rewarded cryptocurrency.*
- *This is the first time the IRS has issued a revenue ruling on cryptocurrency staking rewards.*

The IRS has ruled ([Revenue Ruling 2023-14](#)) that taxpayers using the cash-method of accounting must include the rewards from cryptocurrency staking in gross income in the year they gain control of the rewards.

Cryptocurrency staking

Holders of cryptocurrency native to a proof-of-stake blockchain can receive rewards of newly-created units of that cryptocurrency by participating in a proof-of-stake consensus mechanism, where the holders "stake" their holdings and validate new blocks on the blockchain. Holders can personally stake and validate new blocks on the blockchain, or they may stake through a cryptocurrency exchange.

Analysis

The IRS stated that cryptocurrency is treated as property for federal income tax purposes. A taxpayer's receipt of property constitutes gross income equal to the property's fair market value when its possession is undisputed. Taxpayers using the cash-method of accounting must include gains in property in their gross income in the tax year they gain "dominion and control of those amounts."

Applying this analysis to cryptocurrency staking, the IRS said cash-method taxpayers that stake cryptocurrency native to a proof-of-stake blockchain, either personally or through a cryptocurrency exchange, and receive rewards of additional units of cryptocurrency must include the fair market value of the rewards in their gross income in the tax year in which they gain dominion and control over those rewards. Dominion and control is gained when the taxpayer can sell, exchange or otherwise dispose of the cryptocurrency.

This Revenue Ruling is broadly consistent with the IRS's position in Notice 2014-21 that those earning cryptocurrency as payment for goods or services (e.g., mining) must include the fair market value of the cryptocurrency as of the date that the virtual currency was received when computing gross income.

Implications

Some taxpayers have previously argued that staking rewards received directly from the blockchain by participating in a proof-of-stake consensus mechanism should be analogized to self-created property, which is not taxed until disposition.

In this Revenue Ruling, the IRS clearly takes the position that staking rewards are income to the recipient when received, as determined under the taxpayer's method of accounting.

The IRS issued this Revenue Ruling while litigating *Jarrett v. United States*, No. 22-6023 (6th Cir. 2023). In *Jarrett*, the taxpayer argued that staking rewards are similar to self-created property and therefore should not be subject to taxation until the ultimate disposition of the property. Oral arguments were recently held in *Jarrett* before the Sixth Circuit, but Revenue Ruling 2023-14 may be an attempt by the IRS to issue guidance to resolve the issue.

The ruling does not address the significant cross-border issues involving staking rewards, such as whether receipt is subject to withholding or how the income is characterized in the hands of a controlled foreign corporation.

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