

Congress of the United States
Washington, DC 20515

July 29, 2020

The Honorable Charles P. Rettig
Commissioner
Internal Revenue Service
1111 Constitution Avenue, NW
Washington, DC 20224

CC:

The Honorable Michael J. Desmond
Chief Counsel
Internal Revenue Service
1111 Constitution Avenue, NW
Washington, DC 20224

The Honorable David J. Kautter
Assistant Secretary (Tax Policy)
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Commissioner Rettig:

We write on the subject of blockchain and cryptocurrency – in particular the taxation of the newer variety known as “proof of stake.” It is important that tax policy does not indirectly dissuade U.S. taxpayers from participating in this promising new technology.

The Bitcoin network is secured by a relatively small number of “miners” who validate transactions as they “mine” new bitcoins. In “proof of stake”, in contrast, all tokenholders can contribute to network security by “staking” their tokens and so many, or even most, tokenholders end up holding newly created tokens. This means that network security in proof of stake does not require massive amounts of energy consumption.

These new tokens, often known as “block rewards,” incentivize people to maintain the network and are typically carried out through a third-party service (“staking as a service” provider). These third-parties work to simplify the technical processes and we believe that taxpayers’ true gains from these tokens should indeed be taxed. However, it is possible the taxation of “staking” rewards as income may overstate taxpayers’ actual gains from participating in this new technology. It could also result in a reporting and compliance nightmare, for taxpayers and the Service alike.

Those who help validate transactions create new blocks in the cryptocurrency blockchain and also create these new tokens. Similar to all other forms of taxpayer-created (or taxpayer-discovered) property – such as crops, minerals, livestock, artworks, and even widgets off the assembly line – these tokens could be taxed when they are sold.

American ingenuity can help drive this new technology. We thank you for considering our concerns as part of our continual efforts to future proof policy and tax regulations that will allow for safeguards, but also ensure that innovation won't be driven elsewhere.

Sincerely,



David Schweikert
Member of Congress



Bill Foster
Member of Congress



Tom Emmer
Member of Congress



Darren Soto
Member of Congress