CCI | Crypto Council for Innovation

WRITTEN TESTIMONY OF
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"Making America the Crypto Capital of the World: Ensuring Digital Asset Policy Built for the 21st Century"

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Chairman Schweikert, Ranking Member Sewell, and Members of the Subcommittee:

Thank you for the opportunity to testify today on how the United States can ensure that digital asset policy is built for the 21st century. This is essential to ensuring the U.S. remains at the forefront of innovation. I am pleased to represent the Crypto Council for Innovation (CCI), a global alliance of industry leaders across the digital assets space. We believe that constructive partnership between government and business stakeholders is critical to crafting sound policy and regulation that benefits consumers, investors, and industry. We use an evidence-based approach to support governments that are shaping and encouraging the responsible regulation of this innovative technology. I am particularly grateful for the engagement and leadership of so many on this Subcommittee.

The digital asset sector has evolved significantly over the past decade into a dynamic and expanding sector that now touches payments, capital markets, identity, and data infrastructure. Congress is already advancing foundational legislation to address issues of market structure and stablecoins. While the U.S. has made encouraging strides toward a broader regulatory framework, gaps in tax policy continue to hinder compliance, investment, and enforcement. CCI and I respectfully submit that it is critical for Congress, including this Subcommittee, to urgently provide much needed tax policy clarity for digital assets. Now is the time to modernize the tax code to reflect the realities of the digital economy.

Against this backdrop, my testimony will provide: (i) a broad overview of the digital assets ecosystem, including the role proof-of-stake blockchains play as the base layer of the internet of value; (ii) recent global and domestic policy developments; (iii) the need for greater tax clarity and consistency; and (iv) certain recommendations to further align U.S. tax policy with the growing digital economy.

I. Overview of the Digital Asset Landscape

Crypto is more than just a new asset class. The technology on which it is based is the foundational layer for a more open, efficient, and inclusive digital economy. Digital assets are transforming how we transfer value, access financial services, verify digital identity, and much more. Powered by blockchain technology, these systems are secure, transparent, and programmable—enabling faster, cheaper, and more equitable financial tools that empower individual ownership and control over data and assets. Today, the total digital asset market capitalization exceeds $3.25 trillion, with more than one in five Americans now holding digital assets.[1]

Given the size of the market, it is important to remember that "crypto" is not a monolith. It encompasses a range of use cases, technologies, and relevant market participants. While most are now familiar with Bitcoin – launched in 2009 as the first decentralized, peer-to-peer digital currency and often referred to as "digital gold" – the digital asset ecosystem has expanded far beyond it. Programmable blockchains like Ethereum and Solana are the base layer on which everything from stablecoins to tokenized real-world assets are built. Similar to the way that the internet makes possible apps that enable ride sharing, ecommerce, and much more, these blockchains are powering the next generation of decentralized applications. The majority of these new blockchain networks operate on some form of a proof-of-stake (PoS) consensus mechanism, and staking is how these networks stay secure.

How? Proof-of-stake blockchains allow all token holders to participate in maintaining and securing the network. While it varies from blockchain to blockchain, these systems rely on a network of validators who temporarily commit (i.e., "stake") their tokens for the chance to propose, verify, and add new blocks to the chain, keeping the network accurate and current across the entire network of globally distributed computers.[2] In doing so, validators and other base layer actors help to secure blockchains from bad actor attacks. They distribute newly created tokens and related transaction fees to individual stakers rather than centralized firms profiting from monopoly control of existing rails. A wide range of U.S. market participants—including individual token holders, validators, custodians, and staking-as-a-service providers—now participate in the multi-billion

[1] Forbes (no date) *Cryptocurrency prices today by market cap*. Available at: https://www.forbes.com/digital-assets/crypto-prices/?sh=66ee3c2c2478 (Accessed: July 13, 2025).

[2] Ji Kim & Alison Mangiero, *Let Staking Flourish in the U.S.*, a16z crypto (Feb. 4, 2025), https://a16zcrypto.com/posts/article/let-staking-flourish/. ["To ensure validators act in good faith there is both a carrot and a stick: they are rewarded with newly created tokens, and they have an incentive not to manipulate the blockchain given the sanction of being "slashed" or losing their staked cryptocurrency."]

dollar industry that has been built around securing these networks.[3] In January 2019, total value staked across PoS networks was approximately $50 million.[4] Today, over $660 billion is staked across dozens of networks that provide the infrastructure for today's use cases and ones that haven't yet been imagined.[5]

For example, stablecoins are largely built on proof-of-stake networks. Those pegged 1:1 to the U.S. dollar now exceed $200 billion in circulation and are used globally for cross-border payments, remittances, settlement mechanisms, and humanitarian aid. Visa notes that stablecoins have seen $4 trillion in "onchain" transaction volume in the last 30 days alone.[6] These networks also allow for the creation of emerging tokens tied to sectors like gaming or decentralized finance (DeFi). Developers are currently building new digital economies based on open, composable infrastructure.

NFTs (Non Fungible Tokens) and related technologies allow for the unique ownership and transfer of digital items and credentials. This not only unlocks new economic models for artists and creators, but also allows for the modernization of public record keeping and identity verification that is better suited for the digital age. Today, for less than $15 artificial intelligence (AI) can generate images of people and fake IDs that can fool current identity verification security solutions. But companies, like SpruceID, are working on applications of blockchain and cryptography that have security features that even AI cannot break. This makes government-issued digital identities more secure, reducing fraud while improving access to benefits and services. The California DMV has already issued over two million mobile driver's licenses using SpruceID's technology, allowing residents to verify their identity online with strong privacy protections and safeguards against AI-generated deepfakes, and is now piloting NFTs for vehicle titles to unlock new efficiencies in government services.[7]

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[3] "Proof-of-stake network users can participate by running their own hardware and software (solo or "squad" staking), or they can choose to place their tokens with a technical "staking-as-a-service" provider, which expands the pool of available stakers. These providers do the technical work of running validators and associated infrastructure, thereby enabling users without the necessary time or infrastructure to participate in proof-of-stake networks (for which, in certain cases, they charge users a portion of the rewards that the users may earn for providing useful work to the network). These service providers can enable the user to engage in delegated self-custodial software-as-a-service staking; delegated custodial staking; or smart contract-facilitated liquid staking — depending on the model." Kim & Mangiero, *supra* note 2.

[4] Fireblocks, *Ethereum ETF & Staking: Should Investors Buy Spot or ETF?*, Fireblocks Blog (Dec. 10, 2024), https://www.fireblocks.com/blog/ethereum-etf-staking-should-investors-buy-spot-or-etf/. This represents about 22% of the total market cap of all cryptocurrencies.

[5] CoinGecko, Proof-of-Stake (PoS) Coins, CoinGecko (last visited July 13, 2025), https://www.coingecko.com/en/categories/proof-of-stake-pos.

[6] Visa, *On-Chain Analytics – Transactions*, Visa OnChain Analytics (accessed July 13, 2025), https://visaonchainanalytics.com/transactions.

[7] SpruceID is also working with NIST's National Cybersecurity Center of Excellence to demonstrate how these mobile driver's licenses, if combined with clear guidance from regulators such as FinCEN, can streamline Know Your Customer (KYC) checks for financial institutions. This showcases how modernized digital ID can play a meaningful role across sectors, including stablecoins and digital assets. Nat'l Cybersecurity Ctr. of Excellence,

Digital assets also provide critical utility to a range of projects that are lowering the cost to deploy and maintain critical services, including internet connectivity and computing capacity. Known as "DePIN," or decentralized physical infrastructure, these projects use crypto and blockchain rails as a coordination layer to facilitate the deployment of services in a decentralized way. For example, where an internet service provider is typically centralized and must manage all of the individual cables, antennae, and transmitters of signal in its network, DePIN networks use smart contracts to automate the management of many contributors to a network. This lowers deployment costs significantly. One DePIN internet service provider, Althea, is deployed in communities across the U.S. Its software makes it easy to deploy a wireless network in rural areas where fiber providers may not have a financial incentive to deploy.[8]

In recognition of the many benefits and use cases of digital assets, almost nine out of every ten firms in traditional finance are actively investing in or researching ways to leverage the benefits of public blockchains.[9] Leading traditional financial institutions—including BlackRock, Apollo, Chase and JPMorgan—are now launching products on proof-of-stake networks like Ethereum, Solana, and Avalanche. Tokenized U.S. Treasury funds, tokenized credit funds, and institutional stablecoin infrastructure are all being built on top of staking-based protocols.[10] Visa is building tools like OnChain Analytics[11] to better integrate these systems into global payment flows, and Euroclear, Clearstream, and DTCC are building the digital financial market infrastructures to integrate tokenized assets into established securities systems.[12] These developments confirm that proof-of-stake networks are not peripheral—they are foundational.

The U.S. is home to many of the firms building and securing these networks, as well as the developers, exchanges, custodians, and traditional financial institutions expanding into the space. These participants play complementary roles: developers maintain open-source protocols and applications; exchanges provide market access; custodians safeguard assets; and financial institutions increasingly offer regulated products such as crypto exchange-traded funds (ETFs).

For the past six years, I have worked to advance sensible policies that allow for the growth of these blockchain networks, which power the new internet of value. Staking is the engine that powers these blockchains—and by extension, a vast and growing segment of the digital economy. As adoption grows, the need for clear policy has become increasingly urgent. If we do not get staking regulation—including the relevant tax framework—right then we do not have scalability for any

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Digital Identities Project, NIST, https://www.nccoe.nist.gov/projects/digital-identities-mdl (last visited July 13, 2025).

[8] Crypto Council for Innovation (2024) *What is Decentralized Physical Infrastructure Network (DePIN)?*. Available at: https://cryptoforinnovation.org/decentralized-physical-infrastructure-network-depin-explained/.

[9] Paradigm Policy Team, *TradFi Tomorrow—DeFi and the Rise of Extensible Finance*, Paradigm (Mar. 12, 2025), https://www.paradigm.xyz/2025/03/tradfi-tomorrow-defi-and-the-rise-of-extensible-finance.

[10] Paradigm Policy Team, *supra* note 10.

[11] Visa, *supra* note 6.

[12] *Digital Asset Securities Control Principles: A Framework for Adoption*, DTCC, Clearstream, & Euroclear (May 29, 2024), https://www.dtcc.com/-/media/DASCPWhitePaper.pdf.

of the applications built on top of proof-of-stake networks. As this Subcommittee is well aware, a functioning digital economy requires a functioning tax framework. And right now, when it comes to staking—the process that secures most modern blockchains—we don't have one.

II. Global and U.S. Policy Developments and the Case for U.S. Action

A. *Overview of Global Developments*

In order to fully appreciate why the U.S. must lead when it comes to digital asset policy in general and staking policy in particular, it is important to recognize the global landscape.

As the global adoption of digital assets accelerates, major economies are competing to become the jurisdiction of choice for digital asset innovation.[13] For example, the European Union's Markets in Crypto-Assets Regulation (MiCA), which became fully applicable at the end of 2024, provides a harmonized comprehensive framework for digital asset issuers and service providers. A follow up report on DeFi, NFTs, staking, and other topics, potentially accompanied by a broader MiCA review, is expected later this year. Beyond MiCA, the EU has implemented a comprehensive digital finance ecosystem, including cybersecurity requirements, digital ID standards, and modernized anti-money laundering frameworks.

The United Kingdom (UK) is committed to becoming a global digital asset hub and has fundamentally shifted from gradual regulatory development to a full-fledged approach addressing key areas of the digital asset ecosystem. The UK's Financial Conduct Authority (FCA) published an ambitious regulatory roadmap in early 2025 to deliver all aspects of a digital assets regulatory regime throughout this year, with implementation beginning in 2026. Regulatory guidance released for public comment since has specifically focused on stablecoins, custody, prudential requirements, admissions and disclosures and market abuse, as well as more broadly on a regulatory regime for crypto assets. Their recently released Discussion Paper 25/1 features staking prominently. Additionally, the UK Treasury (HMT) issued a Statutory Instrument amending the Financial Services and Markets Act in January 2025 to clarify that "qualifying crypto-asset staking" is not considered a collective investment scheme (CIS). Its phased implementation plan includes a comprehensive digital asset regulatory regime and specific public consultations on the tax implications of staking.

In Asia-Pacific, various jurisdictions have implemented licensing frameworks for digital asset service providers, introduced stablecoin-specific rules, and undertaken tax reforms to encourage domestic investment in blockchain technologies. For example, Japan is currently advancing tax reforms to revise the tax treatment of crypto asset gains. In addition, in Hong Kong, the Virtual

[13] *See generally* Kim, J.H. (2025) *Written testimony before the U.S. House Financial Services Subcommittee on Digital Assets*, Crypto Council for Innovation. Available at: https://media.cryptoforinnovation.org/2025/02/Written-Testimony-of-CCIs-Ji-Kim.pdf.

Asset Trading Platform (VATP) licensing regime allows retail access to digital assets, balancing consumer protection and innovation, and the Securities and Futures Commission (SFC) recently announced the ASPIRe roadmap—a comprehensive five-pillar strategy covering Access, Safeguards, Products, Infrastructure, and Relationships. In April of this year, the SFC issued regulatory guidance on staking which allows licensed VATPs to provide staking services to their clients and allows authorised virtual asset (VA) funds to engage in staking.[14] While these jurisdictions are not uniform in their approaches, they provide clear regulatory roadmaps and timelines, and they share a common recognition: clear, coordinated and tailored policy frameworks provide a foundation for innovation, capital formation, and investor protection. These efforts are designed not only to promote compliance, but also to attract digital asset innovation to their markets.

B. *U.S. Developments & Case for U.S. Action*

This global backdrop also reaffirms the need for the U.S. to lead in shaping the future of digital asset policy. Recent efforts by both Congress and the Administration demonstrate growing momentum toward this goal, and the 119th Congress has already taken significant steps to further solidify U.S. leadership in the global digital asset economy.

From market structure legislation to stablecoin frameworks, policymakers are now addressing longstanding regulatory uncertainty. The GENIUS Act, which establishes a federal regulatory framework for payment stablecoins, recently passed the Senate with strong bipartisan support (68–30). With "Crypto Week" in the House, progress continues with the House expected to have floor votes on the GENIUS Act. The new Digital Asset Market CLARITY Act, which was recently advanced by bipartisan majorities in the House Financial Services and Agriculture Committees, is now also heading to a full House vote.

At the same time, the current Administration has also taken several immediate steps to advance U.S. leadership. On January 23, 2025, President Trump issued an Executive Order aimed at promoting U.S. leadership in digital asset innovation, including recognizing the need for comprehensive federal regulatory frameworks.[15] We have also seen updated guidance from federal banking regulators regarding how financial institutions and depositories can engage with digital assets and utilize blockchain technology. In March 2025, the Federal Deposit Insurance Corporation (FDIC) rescinded prior guidance that required FDIC-insured institutions to obtain advance approval before engaging in digital asset related activities such as custodying, maintaining

[14] *Securities and Futures Commission*, *SFC Sets Out Staking Guidance for Licensed Virtual Asset Trading Platforms and Authorised Virtual Asset Funds*, SFC News Release (Apr. 7, 2025), https://apps.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=25PR47. Hong Kong is also among the few jurisdictions approving virtual asset ETFs with in-kind subscription and redemption capabilities.

[15] The Order provides that the policy of the new Administration is "to support the responsible growth and use of digital assets, blockchain technology, and related technologies across all sectors of the economy." Exec. Order No. 14,178, *Strengthening American Leadership in Digital Financial Technology*, 90 Fed. Reg. 8647 (Jan. 23, 2025).

stablecoin reserves, and participating in distributed-ledger based payment systems. Similarly, the Office of Comptroller of the Currency (OCC), issued Interpretive Letter #1184 in May of this year, reaffirming that national banks and savings associations can buy, sell, and custody their customers' crypto assets, as well outsource bank-permissible crypto-asset activities to third parties under the appropriate risk management practices.

Notably, the Securities and Exchange Commission (SEC) has also taken a new and more constructive approach. In addition to establishing a dedicated Crypto Task Force, the Division of Corporation Finance has issued statements on proof-of-work mining, memecoins, stablecoins, and—importantly—staking, all in the last six months.[16] These statements mark a shift toward proactive engagement with the industry on crypto issues and reflect an acknowledgment of staking's central role in blockchain infrastructure. This momentum and progress underscore the need for a corresponding tax framework that reflects how these networks actually function.

In this context, tax policy is not an isolated issue. It is a core pillar of the broader legal infrastructure needed to support digital asset innovation. As Congress considers stablecoin legislation and market structure reform, it is imperative that tax modernization moves in parallel to avoid inconsistencies, and ensure that the U.S. is the crypto capital of the world. CCI accordingly commends this Subcommittee for today's hearing and advancing this important work.

III. The Need for Greater Tax Clarity and Consistency

While the U.S. has taken encouraging steps toward establishing a broader regulatory framework for digital assets, tax policy remains a critical area of uncertainty. Digital asset users—both individuals and institutions—face complex, inconsistent, and in some cases, outdated tax rules that fail to reflect the diversity of asset types and transaction models in the ecosystem.

Current federal guidance, such as IRS Notice 2014-21 and Revenue Ruling 2019-24, laid foundational principles by treating digital assets as property and addressing events such as hard forks and airdrops. However, this guidance was issued when the market was considerably smaller and less diverse. They did not account for the maturation of digital asset markets and use cases, increased prevalence of using crypto in payments transactions, proliferation of proof-of-stake protocols, and DeFi.

Even more recent guidance, such as Revenue Ruling 2023-14, aims at tax clarity but creates administrative burdens and an unequal playing field where taxpayers are often forced to pay tax on phantom gains. That Ruling held that cash-method taxpayers must include the fair market value of staking rewards in income when they gain dominion and control. This guidance would diverge

[16] Their May statement on staking affirms that those engaged in protocol staking and related ancillary services are engaging in technical services, which thus do not constitute securities transactions. *Statement on Certain Protocol Staking Activities*, Div. of Corp. Fin., U.S. Sec. & Exch. Comm'n (May 29, 2025).

from the tax treatment of new property in all other contexts and would lead to demonstrably inequitable taxation.[17]

Staking rewards should be treated like all other created property – taxed at the time of sale not at the creation.[18] At the time of disposition, the character of income realized should be determined according to longstanding tax principles and rules governing the sale of assets.[19] Congress should act to clarify the tax code, to ensure a clear, straightforward framework that encourages compliance.[20] The "Providing Tax Clarity for Digital Assets Act" introduced in this committee last Congress provides a strong template for such a provision.

In the absence of updated rules that apply such longstanding principles to this new technology, taxpayers often face administrative burdens and uncertainty over how to report activity. Similarly, the IRS faces challenges in identifying and enforcing legitimate tax obligations.

This gap in clarity creates three material risks:

- **Compliance Risk**: Taxpayers trying to follow the law face significant uncertainty around how and when digital asset transactions are taxed.
- **Enforcement Risk**: Without standardized reporting frameworks and clear and appropriate rules, the IRS lacks the tools it needs to monitor compliance effectively.
- **Competitiveness Risk**: Ambiguous or overly burdensome tax treatment risks pushing digital asset innovation overseas, where regulatory and tax clarity are more advanced.

As the use of digital assets continues to grow—both by individual users and by financial institutions—the urgency of addressing this policy gap has only increased.

[17] As a matter of fundamental principle, staking rewards are new property created by stakers. Like all new property, they should give rise to income at the time of their sale, and not before. The IRS's position would tax many users on illusory gains because it ignores the dilution caused by the creation of new tokens through staking. Staking offsets that dilution, so the value of new tokens overstates the user's economic gain from staking. Including the new tokens in income results in overtaxation. See, for example, Landoni, Mattia and Sutherland, Abraham, *Dilution and True Economic Gain from Cryptocurrency Block Rewards (2020)*. 168 Tax Notes 1189, 2020, Available at SSRN: https://ssrn.com/abstract=3672461.

[18] Though I have not addressed Bitcoin mining directly, mining rewards and staking rewards should receive the same tax treatment so as not to give preference to any particular chain or consensus mechanism..

[19] For a typical taxpayer who purchases 100 tokens, those tokens are capital assets. The taxpayer who then stakes those tokens to offset dilution may end up earning an additional 10 tokens and holding 110 tokens in total. It would be wrong to tax the additional 10 as ordinary income as all tokens should have the same character. In this scenario, all 110 tokens should be capital assets, resulting in capital gain when sold.

[20] This statutory clarification should establish that transaction fees received by stakers and miners are taxed the same as newly created tokens.

VI. CCI Tax Policy Recommendations

CCI supports the development of a fair, modern, and administrable tax framework that reflects the unique nature of digital assets and promotes compliance, innovation, and economic growth.

To that end, we respectfully urge Congress to adopt a thoughtful and comprehensive approach to digital asset taxation that adheres to the following five guiding principles:

- **Parity**: tax policy should avoid imposing punitive or inconsistent treatment to digital assets simply because the technology is new.
- **Fostering Innovation**: the tax framework should preserve and encourage continued innovation in blockchain technologies and the development of decentralized protocols. Startups, developers, and institutions alike need predictable, innovation-friendly rules to build the next generation of digital tools and services.
- **Preserving Core Infrastructure:** activities essential to securing and maintaining blockchain networks – such as staking and mining – should not be discouraged by overly complex or burdensome tax treatment. The tax code should provide administrable rules that reduce compliance uncertainty and support U.S.-based participation in securing critical infrastructure.
- **Use Case Enablement**: tax policy should avoid creating disincentives for key applications, the use of digital assets for payments and remittances. Excessive complexity or uncertainty discourages adoption and burdens everyday users.
- **Global Competitiveness**: tax policy should foster U.S. leadership in digital assets and reflect the strategic importance of this technology, consistent with the President's recent Executive Order on advancing American competitiveness.

Against that backdrop, CCI offers several specific recommendations:

- **Payments and De Minimis Thresholds.** To promote responsible adoption of digital assets for payments Congress should enact a de minimis exclusion for small personal-use digital asset transactions—such as under $300—similar to foreign currency exemptions.
- **Fair Taxation of Staking and Mining Rewards.** Staking and mining rewards should be treated like all other created property – taxed at the time of sale not at the time of creation. They should be sourced to the taxpayer's jurisdiction, not the validator's location, consistent with the treatment of other financial instruments to ensure U.S. validators can fairly compete with offshore peers. The character of income realized from the sale of reward tokens should be determined according to longstanding tax principles and rules governing the sale of assets.
- **Safe Harbors and Investment Structures.** The U.S. should foster responsible digital asset investment through updated safe harbors and fund treatment rules. Specifically, a digital asset-specific safe harbor should be created for foreign investors, similar to those for securities and commodities. Income from staking should qualify as passive income

for tax-exempt and publicly traded partnerships, and grantor trust and other ETP structures should be updated to accommodate staking of digital assets.

- **Exploring Blockchain for Compliance Innovation.** Blockchain technology itself can aid tax compliance. CCI supports exploring options such as a voluntary "tax attestation token" to streamline identity verification and reporting for DeFi users—modernizing compliance while protecting privacy.

VII. Conclusion

The U.S. needs to continue leading. We should want the next generation of internet infrastructure built here instead of overseas. But right now, the tax system is a reason some projects and people are choosing to build elsewhere. In order for the U.S. to cement its position as a global leader we must embrace a comprehensive strategy that treats digital assets as a foundational part of the modern economy. This means aligning tax rules with broader policy developments, enacting reasonable and administrable compliance standards, which will allow for responsible innovation while providing necessary regulatory clarity.

With regard to staking, much of the policy debate has focused on securities laws, but tax uncertainty presents one of the most immediate barriers to adoption, compliance, and continued innovation. As proof-of-stake blockchains have become the backbone of the digital asset ecosystem, resolving staking tax treatment is essential not only for fairness and administrability, but also for U.S. competitiveness.

CCI appreciates the Subcommittee's leadership and its commitment to engaging with industry stakeholders. With foundational legislation moving forward, now is the time to ensure our tax policy is aligned with these developments and reflects the realities of how digital assets function. CCI stands ready to work with Congress to build a more competitive, compliant, and forward-looking digital asset tax framework that ensures U.S. rules support rather than stifle innovation.

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Thank you again for the opportunity to testify before you today. I look forward to answering any questions.