



Congress Should Reject Proposed Tax Breaks for Crypto

By Steve Wamhoff

Executive Summary

Cryptocurrency is essentially computer code that proponents claim can, or one day will, be used the way we use money for financial transactions. To the extent it is being used today for transactions (other than simply buying and selling crypto itself) its main use is for crime. Aside from their usefulness for illicit activities, cryptocurrencies are mainly speculative assets attracting investment from people who believe they will one day be used as money, and people who see a way to profit from those who hold this belief.

Crypto is founded on the premise that it will allow people to make transactions free of government and free of intermediaries like banks. However, today the crypto industry is dominated by large institutions which claim that they cannot thrive without Congress enacting special tax breaks for crypto that are not available for other types of assets and transactions.

Lawmakers should not provide new tax breaks for the crypto industry. Here's why:

- 1 Crypto is currently used more for crime than anything else.** Congress should not enact tax breaks or other policies favoring an approach to transactions that mainly facilitates crime.
- 2 Income that individuals and companies generated by serving as financial intermediaries should be taxed in the same way as other forms of income.** There is no justification for creating a tax deferral or any other special tax break for income generated by cryptocurrency “mining” or “staking.”
- 3 Cryptocurrencies are not currencies but rather are speculative assets and they should be taxed as such.** There is no justification for exempting crypto transactions from existing income tax rules.
- 4 Even stablecoins, a type of cryptocurrency supposedly designed to maintain a steady value, are in many ways speculative assets and should be taxed as such.** Stablecoins are not as stable or useful as proponents claim. Legislation facilitating purchases in stablecoins would create needless complexity with no clear benefit.
- 5 Crypto is a speculative asset that redistributes wealth from ordinary people to the already-wealthy.** Congress should not enact tax breaks or other policies favoring crypto because they will subsidize and promote this upward transfer of wealth to those who least need it.

- 6 The existence of crypto has made possible tax loopholes and tax dodges that the industry has aggressively exploited, and these loopholes should be closed by Congress. Any revenue recovered from blocking these schemes should not be directed back to the crypto industry as a reward for their aggressive tax avoidance.** For example, if Congress shuts down the “wash sale” tax avoidance that crypto made possible, the revenue saved should not be used to pay for tax breaks for the crypto industry.

Introduction

Under current law, crypto is, for the most part, taxed like other types of assets. Crypto supporters in Congress have spent much of the past year working through how exactly they will shower the industry with tax breaks to give it more favorable treatment. Sen. Lummis introduced a bill to do so last summer. In May, lawmakers from both parties in the House introduced the PARITY Act. Recently, the House Ways and Means Committee discussed very similar proposals, although they are (at least for now) broken into several different pieces of legislation.¹

At a hearing of the committee shortly after the bills were introduced, several lawmakers talked up crypto and their desire for the U.S. to lead the world in this new financial industry.

The rest of this report explains in more detail the key reasons why Congress should not enact tax breaks for crypto.

1. Crypto is currently used more for crime than anything else. Congress should not enact tax breaks or other policies that promote it.

One study found that illegal trades to artificially pump-up stock prices account for 70 percent of crypto trades.² Crypto is a practical medium of exchange today – for criminals, terrorists and rogue governments evading sanctions.³ The Iranian government has required payments in Bitcoin for passage through the Strait of Hormuz.⁴

FBI Internet Crime Complaint Center’s (IC3) reports that there were more than 180,000 complaints about crypto-related crimes in 2025 in the U.S., involving more than \$11 billion lost to criminals, an average of more than \$62,000 per complaint.⁵ This does not include the countless criminal transactions that occur every day exploiting the secrecy of crypto transactions.

The CLARITY Act, which is separate from the tax break legislation described here, ostensibly addresses these crimes, but as consumer advocates such as Americans for Financial Reform have observed, these proposals will likely fail to reduce criminal activity and could end up legitimizing the very activities they are meant to curb.⁶

It is in the very nature of crypto that it enables crime. There is no way to encourage the use of crypto without encouraging crime. Congress should not shower tax breaks on an industry that inherently promotes criminal activity.

2. Income that individuals and companies generate by serving as financial intermediaries should be taxed in the same way as other forms of income.

Income generated by financial intermediaries is taxed. This is true in the traditional financial system, where intermediaries like banks and credit card companies earn fees and interest, report them as income in the year they are earned, and pay tax on them. This is also true for intermediaries in cryptocurrency systems, those who receive crypto coins for “mining” and “staking” to verify transactions and build out a blockchain.

The crypto industry argues that Congress should allow an exception to this general rule for its intermediaries (the miners and stakers), allowing them to defer paying income tax on their newly earned crypto coins until they “spend” them or sell them. The industry has provided no clear argument as to why it should have this favorable treatment.

The crypto industry is built on the premise that it has no intermediaries, but this is simply untrue. Its intermediaries are different than those in the traditional financial system, and sometimes less centralized, but are nonetheless generating income by playing an intermediary role to make the systems function.⁷

The idea behind crypto is that instead of having a central authority (like a credit card company or a government agency) managing the system, there is a public ledger showing who has how much and when it changes hands, and the ledger is engineered to make it impossible for any party to improperly alter it or forge transactions.

What is different about crypto is that instead of a relatively small number of



bankers and financial companies acting as intermediaries, it can have many, many parties building a blockchain and validating transactions on it. Because so many intermediaries are involved, the ledger exists in computers all over the world and no one party can mess with it. The ledger and validation process usually takes the form of “mining” or “staking.”

Mining involves millions of computers competing against each other in a computational race to guess a unique random number first. The miner or pool of miners who wins that race earns the right to validate or verify a specific block of transactions that is added to the ledger (or blockchain) and is financially rewarded with crypto assets in return.

Staking involves users “staking” some portion of their crypto assets as a sort of collateral in exchange for validating a blockchain’s transactions. Users are selected semi-randomly from a pool of stakers to validate transaction blocks in exchange for financial rewards – but if they mess up or attempt to alter the transaction, they can be penalized and lose their stake.

Both processes of validating are difficult by design. Mining requires enormous computing power, and staking requires crypto holders to sacrifice liquidity or exposes them to a variety of hacking or cyber risks. Crypto proponents believe this difficulty is the best way to use a decentralized network to prevent any one party from controlling these digital ledgers that would allow them to block, forge or manipulate the assets and transactions recorded on them. This is why miners and stakers are rewarded with newly “minted” crypto coins.

This is a long way of saying that the validators making crypto possible, the parties doing the mining and staking, are generating income for their services. Decentralized digital currency cannot function without validators being paid. This is analogous to how our current monetary system cannot function without financial institutions being paid for mediating transactions.

The crypto proponents’ story gets a little complicated here. Far from being the equivalent of money, these newly minted coins are, they argue, assets or inventory created by the miners or stakers – like crops produced by a farmer and not yet sold. They argue that these coins are initially not even liquid, particularly in the case of staking where the coins can be technically locked into the system to verify transactions.⁸

They argue that it would therefore be unfair to tax the coins as income when they are received. In other words, they want to be allowed to defer income taxes on the coins they are awarded for mining and staking.



This flies in the face of general tax principles and current law. Anything a person receives in return for doing something (for labor, investment, lending) is income regardless of whether it is money or something other than money, so long as the taxpayer receives something they then possess and control. The Tax Court has found that this applies to the crypto coins awarded to validators for staking, noting in a recent case that the validator could sell the coins any time after they receive them, and for this and other reasons they are taxable income in the year they receive them.⁹ There is no reason for Congress to change this.

But that is what the industry proposes and what legislation discussed by the Ways and Means Committee would do. Initially the legislation would have allowed unlimited deferral of income tax on the coins rewarded to validators. This would mean that income tax would not be paid on them until they are “spent” or sold, which could happen years or decades later. An amendment was offered to change to allow deferral for five years, which may be seen as a compromise. But Congress’ Joint Committee on Taxation estimated that the amendment would have nearly the same effect as the unlimited deferral.¹⁰

3. Cryptocurrencies are not currencies but rather are speculative assets and they should be taxed as such.

When assets are used to pay for something, capital gains on those assets are taxed as income. Contrary to the arguments of the crypto industry, there is no reason for Congress to create exceptions to this rule when the assets involved are crypto.

Under current law, anyone who makes a profit by selling an asset for more than it cost to acquire reports that profit (the capital gain) as income and pays income tax on it. This is true whether the seller gets cash in return, or another asset and, if cash, no matter what that cash is used for. Currently, these rules apply to crypto assets as they apply to other types of assets—as they should.

As an example of how these rules work, imagine you sell shares of Company A for more than it cost you to purchase them. The gain is income on which you pay federal income tax. You use the proceeds of the sale to buy shares of Company B.

Consider the same scenario but now imagine that instead of selling shares of Company A for cash, you trade your shares of Company A directly for the shares of Company B. Even though cash is not involved in the transaction, the tax rules recognize that you are in exactly the same situation economically as if it was, so



you must report the capital gain on your sale of the Company A stock as income and pay federal income tax on it.

Now change the example again and imagine you trade crypto assets for shares of Company B. If the crypto assets have appreciated since you obtained them, you have to pay income tax on the capital gain.

Imagine for a moment that despite various existing technical and logistical difficulties with crypto, a restaurant allows its patrons to pay for their meals in crypto instead of U.S. dollars. Under current law anyone paying for their meal in crypto would be treated just like someone paying for their meal with corporate stock. Any capital gains on the crypto or the stock would be realized and subject to income tax.

The crypto industry wants a different set of rules. It wants purchases made with crypto to be treated as if they were made with dollars, ignoring the possibility that there could be income (capital gains) that should be taxed.

But crypto fundamentally is an investment asset. Capital gains on crypto are income. And even if lawmakers for some reason wanted to deviate from these longstanding rules for people who make payments in crypto, it is very difficult to limit such exceptions so that they are not used by investors and traders to shelter their profits from income tax rather than just people making retail purchases.

For example, a Senate bill introduced by Sen. Cynthia Lummis last year would exempt anyone using up to \$300 of crypto for any transaction, up to an annual limit of \$5,000, from reporting capital gains. It is not clear what would prevent an individual from having numerous accounts that all claim to be for different people that would each use that \$5,000 limit. Someone with 20 accounts like this could shield \$100,000 of capital gains from income tax. Proponents want to make crypto purchases seem as simple as dollar purchases, but the reporting required to enforce these rules would not be simple.¹¹

4. Cryptocurrencies are speculative assets and should be taxed as such even in the case of stablecoins, which are not as stable or useful as proponents claim.

The legislation recently discussed by the House Ways and Means Committee takes a different approach by exempting purchases made with a particular type of cryptocurrency: stablecoins. These are crypto coins whose price is pegged



to another asset or to government-issued money and backed by some form of collateral.¹² People using stablecoins would be exempt from requirements to report capital gains on the premise that these coins do not fluctuate and therefore do not generate capital gains.

The truth about stablecoins is often more complicated. The value of stablecoins can change, and traders can profit from these changes. The drafters of the legislation are well aware of this and have written complicated rules to try to ensure that this break only goes to people using stablecoins to make retail purchases (like the person in the example above paying for dinner at a restaurant) and not investors and traders who are cashing out huge positions in stablecoins. The complexity of the rules seems to negate the simplicity and efficiency that crypto proponents claim are virtues of cryptocurrencies.

If a stablecoin is pegged to the U.S. dollar, this does not necessarily mean that someone is literally holding one U.S. dollar for every stablecoin. Some U.S. dollar-denominated stablecoins are backed up entirely by cash and cash equivalents, while others are backed partly by loans, other types or crypto and other investments.

People who hold the U.S. dollar-backed stablecoins can redeem them for U.S. dollars, but the system can collapse if too many holders of a stablecoin do this at once and the issuer is not able to honor them all. This has already occurred, in the form of “runs” on stablecoins, with too many holders trying to cash in all at once, sending their value below the dollar and thus breaking their “peg.”¹³

Even when this does not happen and a stablecoin functions exactly as planned, it will still fluctuate in value to a small degree, and traders can profit from these fluctuations. If a U.S. dollar-denominated stablecoin is selling for less than one dollar, traders will have a strong incentive to buy the coins and turn to the issuer to redeem them for \$1 each. This will push the price of the stablecoin back up. If the purchases of the coin push its value above \$1, traders will do the opposite, obtaining more coins from the issuer for \$1 each and then selling them on the market for slightly more than a dollar, which will bring the price back down. This arbitrage is built into the system to push the value of the stablecoin up or down as needed to help maintain its peg to the dollar, and traders do this because of the gains they generate from it.¹⁴

In other words, a stablecoin, like other types of cryptocurrencies, can appreciate and produce a capital gain. Under current law this capital gain is taxed whenever a stablecoin or other cryptocurrency is sold or exchanged, just as is the case with other types of assets.



The drafters of the Ways and Means Committee legislation provide an exception to this general rule for consumer purchases made with stablecoins. They attempt to limit this exception to people who are not investors and traders and to situations where the stablecoin's value has not fluctuated much. The break is available only for dollar-denominated stablecoins from approved issuers and is not available if the IRS determines that the value of a dollar-denominated stablecoin shifts half a cent below or above a dollar. The break is not available for traders, brokers or dealers, or anyone doing more than 5,000 of these transactions in a year, with various exceptions.¹⁵

It is worth noting here that proponents of cryptocurrencies claim they will be more efficient and convenient than traditional currency but the complexity required to provide these special tax breaks cast doubt on that claim.

This is complexity that serves very little purpose. Today, extremely few retail purchases are made with cryptocurrency (stablecoins or any other type of crypto currency). In 2023 and 2024 less than 2 percent of consumers in the U.S. made payments and transfers with cryptocurrencies.¹⁶

Stablecoins are not usually used for retail purchases. Instead, they are used mainly by speculators who are buying and selling other types of more volatile crypto. According to some market observers, crypto investors basically use stablecoins the way gamblers at a casino use chips.¹⁷ They are not typically used by people outside financial trading, or by anyone to, say, purchase groceries or buy a cup of coffee.

5. Crypto is a speculative asset that redistributes wealth from ordinary people to highly-resourced investors who are already wealthy.

Crypto is marketed to ordinary, middle-income and even low-income people as a new form of money and as an investment opportunity. The following, found on the website of Binance, the largest crypto exchange, is typical.

“Around the world, billions of people remain unbanked—meaning they lack access to basic financial services such as savings accounts, credit, and secure payment systems. Cryptocurrencies and blockchain technology are increasingly seen as a potential solution to this problem, offering an alternative financial infrastructure that is open, borderless, and accessible.

Assets like Bitcoin and platforms such as Ethereum demonstrate how decentralized systems can operate without traditional intermediaries, making them especially relevant for underserved populations.”¹⁸

Despite these claims, there is no evidence that crypto makes life better for the unbanked or underserved populations or anyone other than large-scale investors, often called “whales,” who have vastly more computational infrastructure, information, and expertise.

The following is the reality described in a report published by the Bank of International Settlements in 2025:

“... there is evidence that retail investors have systemically lost out relative to wealthier investors. As prices tumbled in 2022, users actually traded more. Most disturbingly, large bitcoin holders (“whales”) were selling as ordinary retail investors (“krill”) were buying. This implies that the crypto market, which is often presented as an opportunity for inclusive growth and financial stability, can be a means for redistributing wealth from the poorer to the wealthier.”

Others argue that the crypto industry’s marketing itself as democratization of finance is a type of “predatory inclusion” and note the dire need for national regulations to rein in the impact on retail investors and consumers.¹⁹

Congress should not enact tax breaks or other policies favoring crypto given these negative impacts of the industry.

All of this was evident even before recent revelations that President Trump enriched himself by convincing followers to buy his crypto coins, typically at a loss to themselves. Trump unveiled the \$TRUMP meme coin shortly before his second inauguration. A meme coin is type of crypto coin that does not even pretend to have any practical use but is instead thought of as a collector’s item. Meme coins typically involve an internet meme and can even have comical associations but can also be highly speculative investments with values that rise and crash spectacularly.

The New York Times recently reported that nearly a million buyers of Trump’s meme coin lost money, totaling \$3.8 billion in losses, after the coin’s value rocketed to more than \$70 and then crashed to less than \$2. But \$TRUMP was engineered so that the president receives income from trades anyone makes of the coin, allowing Trump to make \$636 million from it despite its disastrous performance for most people who bought into it.²⁰

Meanwhile, Trump's family also owns and runs a company called World Liberty Financial, which lost money for many investors but generated \$799 million for the president last year.²¹

Trump's profits from these schemes are particularly corrupt. (Trump even drove up the price of \$TRUMP by hosting a dinner for the coin's biggest investors, at which he declared his intention to deregulate the industry.)²² But Trump's endeavors are not fundamentally different from others involving crypto because they all rely on massive speculation in support of assets that are more or less pieces of computer code with no inherent value.

6. The existence of crypto makes possible tax loopholes and tax dodges that the industry has aggressively exploited. These should be closed by Congress. Any revenue recovered from blocking these schemes should not be directed back to the crypto industry. Doing so would reward their aggressive tax avoidance.

A "wash sale" is a tax avoidance technique in which an investor who fully intends to remain invested in a company sells their shares when they are down in value to generate tax losses they can deduct and then immediately repurchases them.

Investors already have an incentive to hold onto appreciating stocks to avoid paying income tax on the capital gains, while they can immediately realize losses any time by selling stocks that have lost value. This already creates an unbalanced system where the wealthy are far slower to report and pay taxes on income than they are to report and deduct losses for tax purposes.

Allowing wealthy investors to deduct losses even when they intend to remain invested in a particular company (typically with the expectation that its value will recover) would supercharge this imbalance and make it nearly impossible to tax many investors at all.

For these reasons, existing tax law bars wash sales of securities. Specifically, the law bars taxpayers from deducting a loss from a stock sale and repurchasing the same stock within 30 days.

The crypto industry found a loophole in these rules. The IRS considers cryptocurrencies to be property, not securities, so the wash sale rules do not apply to them.

Under current law, an individual might sell a digital asset at a loss one day and then repurchase the exact same asset the next day and still claim a deduction



for the loss—even though they have not really relinquished the asset in any meaningful way or changed their economic position in terms of that asset.

Everyone, including crypto proponents, seems to agree that the wash sale rules should be expanded to apply to digital assets such as cryptocurrencies. Several crypto tax bills, including legislation recently discussed by the House Ways and Means Committee, would use the revenue raised by closing this loophole to pay for the proposed crypto tax breaks described previously. This is not a logical or fair use of this revenue. Wash sales of crypto are a problem created by the crypto industry. Revenue saved from shutting them down should not be rewarded to the industry that created the problem in the form of new tax breaks.

Conclusion

The reasons discussed above for Congress to reject proposed tax breaks for cryptocurrencies can be summarized in two points.

First, crypto provides no clear benefit and instead harms society in several ways, including by facilitating fraud, money-laundering, sanctions evasion and other crimes, and by redistributing wealth from ordinary people to extremely well-off market actors (including market manipulators) like President Trump. These harms should give lawmakers pause before they even consider whether the central goal of cryptocurrencies – to provide an alternative to government-issued money, one that the government cannot control – would be harmful and would be a strange thing for the government to support.

Second, even if crypto was useful in some way that outweighed the harms it causes, there is no reason to make exceptions to general tax principles to treat it more generously than the tax code treats other types of assets and other types of transactions. There is no reason why someone who is awarded newly minted coins in return for staking should be treated more favorably than someone who earns interest by lending. There is no reason why someone who uses cryptocurrency to pay for something should be treated more favorably than someone who uses corporate stock to pay for something.

Stripping away the arcane terminology and the technical arguments made by the crypto industry, these two points should be straightforward for policymakers: Crypto has caused more harm than good, and there is no reason to tax it more favorably than other assets and other transactions.



Endnotes

1. United States House Committee on Ways and Means, Full Committee Legislative Hearing on Digital Asset Taxation, June 9, 2026. <https://waysandmeans.house.gov/event/full-committee-legislative-hearing-on-digital-asset-taxation/>. The revenue impact of these proposed tax changes seem uncertain at best. Congress's official revenue-estimators at the Joint Committee on Taxation (JCT) estimate that the revenue impact of the proposed tax cuts for crypto would all come to around \$5 billion, leaving aside proposed revenue-raising provisions to offset them, which will be discussed further on. But the impact could be vastly greater than this. JCT is unlikely to predict the massive increase in the value and trading volume of crypto that the industry clearly wants to engineer, which would dramatically increase the revenue costs of these tax cuts. JCT is also unlikely to attempt to predict the bust that could potentially follow. It is reasonable to assume that JCT would not attempt to predict the potentially volatile fluctuations in crypto assets. It is also reasonable to assume that the crypto industry would not lobby for these tax changes if they did not believe the benefits could be substantial.
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6. Americans for Financial Reform, "Fact Sheet: AFR Fact Sheet on the CLARITY Act: A Crypto Cash Grab that is a Consumer Catastrophe," July 8, 2025. <https://ourfinancialsecurity.org/resources/fact-sheet-afr-fact-sheet-on-the-clarity-act-a-crypto-cash-grab-that-is-a-consumer-catastrophe/>
7. In fact, the world of crypto trading is heavily centralized. For example, most crypto is traded on exchanges. At the time of this writing, the 20 largest exchanges, those with daily trading volume approaching or exceeding \$1 billion, are all centralized exchanges, meaning they are owned and operated by one company or one party. <https://messari.io/exchanges>. Most are private companies, although one, Coinbase, is a publicly traded corporation. It is difficult to see these entities as existing outside the existing, very centralized financial system. One of the largest exchanges, OKX, is a private company that has received investment from Intercontinental Exchange, Inc., the parent company of the New York Stock Exchange. In addition, to the exchanges, other parts of the system are often very centralized, including the wallet providers. See Hillary J. Allen, "The Superficial Allure of Crypto," F&D Magazine, International Monetary Fund, September 2022. <https://www.imf.org/en/publications/fandd/issues/2022/09/point-of-view-the-superficial-allure-of-crypto-hilary-allen>. Even the manufacture of the machines for mining can be extremely centralized. One Chinese-owned company has produced 80 percent of the machines used to mine Bitcoin. See Ryan Weeks, "Trump's Son and a Mysterious Chinese Crypto Giant Are in Business Together," Bloomberg, March 17, 2026. <https://www.bloomberg.com/news/features/2026-03-17/trump-s-son-and-a-mysterious-chinese-crypto-giant-are-in-business-together>

8. Testimony of Lawrence Zlatkin, Vice President, Tax, Coinbase Global, Inc., House Committee on Ways and Means, Tuesday, June 9, 2026. <https://waysandmeans.house.gov/wp-content/uploads/2026/06/Ways-and-Means-Testimony-for-Lawrence-Zlatkin-June-9-2026.pdf>
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