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Thank you Chairman Smith, Ranking Member Neal, and distinguished members of the House Committee on Ways and Means for inviting me to testify today. My name is Lawrence Zlatkin, and I serve as Vice President of Tax at Coinbase. Coinbase operates the largest and most trusted platform in the United States for customers to buy, sell, hold, and securely manage digital assets. We are deeply committed to fostering a transparent, robust, and fully tax-compliant digital asset ecosystem.

For nearly 25 years before I joined Coinbase, I served as a corporate tax executive at the General Electric Company (GE). In that role, I was tasked with ensuring that one of the world's most sophisticated financial and industrial firms operated with maximum efficiency and absolute integrity as it confronted complex domestic tax laws, global cross-border M&A, international tax optimization, and rigorous multi-jurisdictional compliance questions. It was during that tenure that I learned a basic, universal, and permanent operational truth: **in finance and tax law, clarity is everything.**

When rules are clear, predictable, and simple to execute, economic capital flows freely, technological innovation accelerates, and everyday taxpayers seamlessly comply. Conversely, when tax rules are vague, patchworked, or administratively unworkable, economic activity stalls, errors multiply, businesses relocate permanently, and the government's own administrative burden grows alongside them.

That foundational perspective is what brings me before this Committee today. Digital assets represent the most important financial innovation of our lifetime - a market that has rapidly scaled to a \$2+ trillion global economy. This technology is no longer a niche, theoretical experiment; it is a foundational layer of modern global commerce and finance. Yet, for over a decade, our tax laws have remained stubbornly stuck in the past. We have forced 21st-century financial innovation into 20th-century tax rules, producing entirely predictable and counterproductive results: massive confusion for everyday taxpayers, unmanageable data-processing burdens for the Internal Revenue Service (IRS), and a steady flight of technological innovation and capital away from the United States.

I want to express my gratitude to Chairman Smith, Ranking Member Neal, and the entire Committee for your ongoing commitment to understand this new technology and develop rules that create parity with traditional financial products, while also recognizing the unique characteristics of digital assets.

In particular, I would like to thank a bipartisan group of members - Congressman Max Miller, Congressman Steven Horsford, Congressman Mike Carey, and Congresswoman Suzan DelBene - for your leadership to bring greater clarity to this space while helping ensure that American technological innovation and leadership can continue to thrive.

Furthermore, I want to thank the professional majority and minority Committee staff members who have spent countless hours organizing and attending crypto briefings and roundtables over the last several years. Their tireless dedication behind the scenes is the reason we are standing on the precipice of true legislative progress today.

Coinbase has long called on lawmakers and regulators to create a comprehensive digital asset framework that creates legal certainty for consumers, businesses, and investors who are engaged in the crypto economy. In July 2025, the House took a major step toward this certainty by passing the GENIUS Act into law and sending the Digital Asset Market Clarity Act (CLARITY Act) to the Senate for consideration. Both bills were strongly bipartisan and demonstrated that Members across the political spectrum have the shared goals of protecting consumers, minimizing costly ambiguity, ending regulation by enforcement, and keeping the US competitive in the global economy.

The next critical step is addressing the tax challenges that American consumers have in relation to crypto. If market structure legislation provides the regulated highway, tax policy dictates whether capital will actually choose to drive on it.

The need for federal action is becoming more and more urgent as states begin to consider their own digital asset tax regimes, creating the risk of a fragmented patchwork of taxes, reporting requirements, and compliance obligations that undermines the certainty Congress is working to establish. Moreover, as evidenced this month by Illinois, some of these state proposals will impose new transaction taxes that will erode parity with other financial products and threaten the global leadership America is working to secure.

The bills being considered by this committee today will help lock in the future of finance here in America. My testimony today is intended to provide technical and operational context, with the goal of helping to bring our tax code into the 21st century.

## Easing Retail Friction

### **A. Broker Reporting & Stablecoin Neutrality**

Coinbase has always maintained that information reporting is a bedrock of a fair and functional tax system. However, information reporting only works when it provides the IRS with actionable, useful data, rather than flooding the agency with low-value noise.

We commend Congressman Yakym's "Less Tax Paperwork for Digital Asset Owners Act" for integrating an innovative "deemed-basis" rule for qualified, dollar-pegged payment stablecoins into the current legislative draft. By ensuring that stablecoins compliant with federal regulatory standards - such as those envisioned under the bipartisan GENIUS Act - are treated at par for tax purposes, when traded within a tight variance of their \$1.00 peg, this bill delivers a massive victory for common sense.

Because GENIUS compliant payment stablecoins are explicitly designed to maintain a fixed 1-to-1 relationship with the U.S. dollar, they do not generate real economic capital gains or losses for consumers. Under existing tax rules, ordinary American consumers are forced to calculate historical cost basis every single time they use a digital dollar to make a purchase or pay a routine subscription. This creates an administrative barrier without a sound tax policy rationale and destroys the commercial utility of payment innovation.

Treating stablecoins at par removes this unworkable tracking burden. Operationally, it protects the IRS from being buried under a mountain of billions of Forms 1099-DA that report zero taxable revenue. Crucially, it also protects consumer privacy. The American people should not be forced to hand over a microscopic, detailed digital surveillance log of their daily, private, cash-equivalent purchases to the federal government simply because they utilized a modern payment rail.

We would encourage the Committee to expand this framework broadly to market participants such as traders, brokers, dealers, and other significant actors across the digital asset ecosystem. There is no need to clutter the IRS with reporting for stablecoins when there simply is no gain or loss associated with their increased use in the financial system.

## **B. The Gas Fee and De Minimis Gap**

One of the final pieces needed to unlock everyday digital asset commerce is a broad, cross-asset de minimis exemption for personal transactions.

To interact with any public blockchain network or deploy a smart contract, users must programmatically pay a nominal transaction fee - commonly referred to as "gas" or a "validation fee" - in the network's native utility token. If a consumer uses a fraction of a network token like Ethereum to deploy a smart contract, or uses a portion of Bitcoin to cover the miner fee required to broadcast a payment, they are still legally forced under current rules to calculate the historical cost basis and miniscule gain or loss on that 50-cent or \$2 infrastructure fee.

Congressman Yakym's "Less Tax Paperwork for Digital Asset Owners Act" includes a \$10 validation fee waiver, which is a pivotal policy change for how blockchain technology actually functions at the infrastructure level. It recognizes that these micro-payments are automated network infrastructure costs, not ordinary investments or transactions. Exempting these baseline network interaction fees from tax is a major step toward structural clarity.

Congress should also ensure that the exemption provides complete administrative relief in addition to tax relief. As drafted, taxpayers may be relieved from recognizing gain on qualifying network fees, but brokers may still be required to track, value, aggregate, and report many of these transactions. The provision removes the tax but not necessarily the paperwork. Taxpayers receive relief, but reporting platforms still bear much of the compliance burden associated with tracking billions of economically insignificant network-fee transactions and tracking taxpayer eligibility (e.g., monitoring a 5,000-trade threshold).

More fundamentally, the bill stops short of a cross-asset de minimis exemption for an underlying purchase when using a non-stablecoin asset. A consumer who chooses to purchase a good with a de minimis amount of Bitcoin may still face capital gains tracking requirements for the underlying transaction. They are relieved from calculating the gain or loss on the \$1 network fee, but they remain subject to capital gains tracking requirements for the \$4 purchase itself. We do not believe that cluttering the tax system with these microtransactions is administrable or efficient.

Congress should build upon this progress by codifying a true small-dollar personal transaction exemption for all digital assets, including Bitcoin - such as an exemption for transactions up to \$50 to \$100, or capped at \$600 annually - modeled conceptually after the long-standing de minimis gain exception for personal foreign currency transactions under Section 988(e).

### **C. Timing of Mining and Staking Rewards**

Congressman Carey's "Tax Clarity for Mining and Staking Act" delivers critical clarity on the taxation of newly created digital assets through proof-of-stake validation and mining operations. Historically, the IRS has attempted to tax validation rewards at the exact microsecond they are programmatically distributed to a wallet. This approach forces a taxpayer to record taxable income and incur an immediate liability before they have ever executed a commercial sale or realized a single penny of actual liquidity.

In the United States, a farmer is never taxed when a bushel of wheat sprouts from the ground; they are taxed when they harvest that crop, bring it to market, and execute a sale. A manufacturer is not taxed when a widget rolls off the assembly line, but rather when that widget is sold to a distributor.

We support a formal election to defer validation rewards until the assets are actually sold — bringing the tax code into alignment with traditional commodity producers, eliminating artificial liquidity crunches, and providing the long-term certainty needed to keep validation infrastructure here in the United States rather than driving it offshore.

### **Operational Runway and Parity**

The legislative discussion extends Section 1091 wash-sale rules and Section 1259 constructive-sale rules to digital assets. Applying traditional anti-abuse guardrails to digital assets is the right policy, and we have said so publicly for years - true structural parity with traditional finance is a goal we share. But that support has always come with a vital caveat: these rules must only be implemented as part of a broader, comprehensive, and balanced package, like the one the Committee has produced. For years, various proposals have attempted to cherry-pick crypto wash-sale rules as an isolated, standalone "pay-for" to fund entirely unrelated federal spending bills. Slicing these highly complex provisions out of context, without balancing them against retail relief and institutional modernization, is a recipe for compliance distortions and severe market disruption.

We appreciate and strongly endorse the Committee's recognition of the real-world complexities that ordinary taxpayers and brokers face in applying these rules. We applaud the introduction of a simplified mark to market annual tax accounting provision, allowing taxpayers subject to these rules to simplify their compliance with a mark to market election, similar to how traders and dealers are treated. The volume of transactions for many of our users is very high and necessitates this type of programmatic solution for compliance.

## **B. The Technological Friction of Cross-Venue Tracking**

Congress must understand that enforcing wash-sale rules within the digital asset ecosystem presents an unprecedented technological challenge that does not exist in traditional equities markets.

Traditional stocks trade on centralized, closed clearing venues (such as the New York Stock Exchange) with fixed trading hours, uniform settlement timelines, and centralized clearing houses. Digital assets, by contrast, operate 24/7/365 on global, highly fragmented rails. A single individual can legally and fluidly execute trades across multiple centralized U.S. exchanges, move assets into automated decentralized liquidity pools, and transfer holdings into unhosted, self-custody software wallets.

Because Section 1091 disallows a tax loss if a 'substantially identical' asset is purchased within 30 days before or after a sale, compliance across this fragmented ecosystem presents an immense engineering hurdle. (Furthermore, guidance will be necessary to understand what constitutes a 'substantially identical' asset.) Neither centralized brokers, individual retail taxpayers, nor the IRS currently possess the data-sharing architecture required to aggregate, verify, and match chains of custody across custodial and non-custodial environments in real time.

## **C. Urging a Broad Implementation Runway**

For these reasons, we commend the Committee for choosing an effective date of 2028 for implementation of the wash sales rule for brokers. We would encourage a broad, mandatory implementation buffer of at least 18 to 24 months from the date of enactment, applying uniformly to both taxpayers and brokers.

While it does delay broker reporting until at least 2028, forcing the underlying wash-sale or constructive-sale regime into immediate effect for taxpayers will inevitably result in systemic reporting chaos. Doing so before the private sector can build cross-venue cost-basis tracking software, and before the IRS can modernize its data ingestion architecture, will trigger widespread confusion, a massive wave of mismatched cost-basis reporting, and an unmanageable explosion of administrative IRS audits that will bog down the agency's resources. A realistic, synchronized runway is a non-negotiable prerequisite for a workable, compliant framework.

## **D. Protecting Vital Legislative Guardrails**

We strongly support the inclusion of explicit wash-sale exemptions for qualified US dollar stablecoins and newly minted validation block rewards in the discussion draft. These exclusions provide important policy clarity and appropriately reflect the distinct nature of these assets. We encourage the Committee to retain these provisions in the final legislation.

Because payment stablecoins fluctuate by mere fractions of a penny around a fixed \$1.00 peg, they are economically incapable of being utilized for strategic, artificial tax-loss harvesting. Subjecting stablecoin transactions to Section 1091 would overlay massive administrative drag onto everyday commerce with absolutely zero revenue benefit to the federal government.

Similarly, programmatic, protocol-level validation rewards must remain strictly excluded from triggering wash-sale penalties. An active network validator cannot control the exact second a blockchain protocol distributes a staking reward; treating these automated distributions as a "purchase" that accidentally disallows a legitimate tax loss on a separate portfolio sale would paralyze the domestic validation industry. Preserving these narrow, common-sense guardrails is vital to maintaining a fair and enforceable code.

## Plugging Corporate and Capital Gaps

While the bills represent a historic leap forward for retail accounting and broker information reporting, Congress must look further to ensure the job is fully completed. To bring the Internal Revenue Code fully into the 21st century, the final legislative product should incorporate critical adjustments that resolve operational bottlenecks for institutional structures, corporate balance sheets, and global capital allocation.

### **A. Cost-Basis Tracking Symmetry for Self-Custody Architecture**

Following the regulatory elimination of the commingled "universal wallet" method under Section 1012(c), taxpayers are now required to track the cost basis of digital assets separately within each individual "wallet or account." While this change was designed to help the IRS verify tax returns against Forms 1099-DA, it has introduced massive operational friction for users who utilize self-custody software.

Current Treasury regulations refer loosely to assets held in a "wallet or account," yet neither term is clearly defined for unhosted, cryptographic architecture. A single self-custody setup or hardware device (e.g., a computer, a hard wallet) can generate thousands of distinct, automated public blockchain addresses and public keys. It remains dangerously ambiguous whether a taxpayer utilizing an unhosted wallet is maintaining a single "account" or thousands of separate, address-level accounts.

To resolve this, Congress should explicitly amend Section 1012(c) to clarify that taxpayers who self-custody digital assets are permitted to track and report their cost basis at an aggregated pooling account level, rather than being forced to calculate basis down to individual, hyper-granular blockchain addresses. This change provides vital operational symmetry with traditional finance: under current rules, commercial institutional brokers are already permitted to track cost basis at a sub-ledger account level within their pooled, omnibus wallets. Extending this same pooling logic to self-custody users eliminates an unworkable compliance burden while maintaining clear, auditable records for tax enforcement. We applaud the novel proposal to address these complexities through a simplified mark to market annual tax accounting provision.

### **B. Charitable Deductions for Digital Assets**

We agree with the sensible administrative improvement made in Congressman Kelly's "Charitable Deductions for Digital Asset Donations Act." Widely traded digital assets should qualify for

charitable deductions with the same simplicity as publicly traded securities, without the need for a costly professional appraisal. These assets trade with the same precision and transparency as any other financial instrument, and taxpayers should not face burdensome requirements that serve no genuine policy purpose.

### **C. Grantor Trust Modernization (The ETF Staking Bottleneck)**

The massive wave of mainstream institutional digital asset adoption in the United States has been overwhelmingly driven by regulated investment products, specifically spot ETFs and ETPs. For federal tax purposes, these highly successful investment vehicles are structurally organized as Grantor Trusts, which allow income and asset ownership to flow through directly to retail investors without creating a duplicative corporate tax layer. The challenge is that our decades-old Grantor Trust rules were written for static physical commodities, like gold bullion, and do not clearly accommodate the operational realities of proof-of-stake blockchain protocols. Congressman Carey's "Tax Clarity for Mining and Staking Act" draft bill takes an important step by clarifying that passive staking should not, by itself, disrupt trust treatment.

### **D. Institutional Sourcing Parity and Liquidity Safe Harbors**

Liquidity is the lifeblood of every functional capital market. In traditional finance, lending a security to a market maker to provide liquidity is a well-established, non-taxable event under Code Section 1058. We highly commend Congressman Kustoff for his PAR Act which expands Section 1058 to explicitly include traded digital assets. Ensuring that an institutional digital asset loan is not treated as an artificial, taxable disposition will unblock massive liquidity pools, reduce market volatility, and keep institutional trading desks rooted firmly onshore.

We also applaud Congress in the PAR Act for proposing a dedicated digital asset trading safe harbor under Section 864(b) to fully modernize these long-standing safe harbors for traditional securities and commodities. For decades, foreign pension funds, university endowments, and global asset managers have poured trillions of dollars into U.S. capital markets because they have statutory certainty that trading through a U.S.-based investment manager will not accidentally subject their entire global income to the U.S. corporate tax net.

Because no such statutory safe harbor exists for digital assets, foreign institutional investors are actively avoiding U.S. platforms and routing their liquidity through offshore managers. Furthermore, we appreciate and agree with the draft bill's clear residence-based sourcing rule for staking and validation rewards. Because validation infrastructure is highly mobile and software-driven, any rule that penalizes foreign capital for utilizing U.S. validation nodes will result in an immediate, permanent flight of technological infrastructure out of the country.

Congress should also provide statutory clarity regarding the interaction between digital assets and the Corporate Alternative Minimum Tax (CAMT). Although recent regulatory guidance has helped address immediate concerns, durable legislative certainty that unrealized digital asset appreciation will not trigger tax consequences is essential to giving institutional participants the confidence to deploy capital onshore.

## **E. Reconciling Global Reporting and Preventing Compliance Double-Jeopardy**

Finally, Congress must address the international arena. Digital assets operate on global, borderless rails, making international tax coordination an understandable priority, but the OECD's Crypto-Asset Reporting Framework (CARF) threatens to introduce severe operational friction if implemented carelessly.

Unilateral Treasury adoption of CARF would trap American platforms in a compliance double-jeopardy environment, forced to operate under two conflicting standards simultaneously: the domestic 1099-DA framework under the Infrastructure Investment and Jobs Act (IIJA) and the international CARF standard. No such duplication exists for traditional financial services. This would hollow out the very framework these bills establish, layering redundant mandates in a manner that increases compliance costs, diminishes firm competitiveness, and drives capital toward offshore tax havens.

We urge the Committee to include a formal statutory directive instructing Treasury to refrain from unilaterally adopting CARF mandates without explicit congressional authorization, ensuring that any international data-sharing discussions remain strictly bound by the domestic 1099-DA framework enacted by Congress.

## **F. Retirement Accounts and Digital Assets**

We also advocate for expanding access to digital assets within the retirement account infrastructure available to American retirement savers. We see the inclusion of crypto as an option for investment as a natural extension of the retirement fund framework and another effort at providing parity for crypto and traditional finance. Additionally, staking rewards or validation income associated with digital assets should be exempt from UBTI or "unrelated business taxable income," which otherwise would limit the investment and income options of investors in realizing the maximum benefit associated with investing in crypto in their retirement accounts.

## **Conclusion**

Chairman Smith, Ranking Member Neal, and members of the Committee, the introduction of these bills represents a historic milestone. It demonstrates to the world that when policymakers act with precision and technical understanding, we can build a tax framework that robustly protects the federal revenue base while simultaneously fostering technological innovation. We are excited by how boldly this Committee has responded to the challenge.

These bills prove that we do not have to choose between market integrity and financial progress. The technical sophistication behind these bills show in the details. Excluding GENIUS-compliant stablecoins from broker reporting spares the IRS from millions of forms on zero-revenue transactions, while treating payment stablecoins as cash equivalents removes an administrative barrier that served no tax policy purpose. The \$10 network fee waiver reflects a genuine grasp of how blockchains function - gas fees are infrastructure costs, not investments, and the bill treats them accordingly. The staking and mining timing election resolves a long-standing injustice, aligning digital asset producers with every other productive asset class in the American economy.

And the Grantor Trust clarification and explicit residence-based sourcing rule unlocks proof-of-stake participation for regulated ETFs and investors that millions of Americans already rely on. These are real, meaningful wins.

To build on this strong foundation, we ask the Committee to take the necessary steps before advancing legislation to the floor:

1. **Codify the De Minimis Gap:** Explicitly codify a de minimis exemption for all digital assets for small purchases. While the \$10 network fee waiver successfully aligns with public blockchain architecture, leaving everyday retail purchases with assets like Bitcoin and other crypto fully taxable under property law keeps mainstream commerce trapped in an unworkable reporting bottleneck.
2. **Provide a Realistic Implementation Runway:** Ensure that the 18-to-24-month implementation timeline for wash-sale and constructive-sale rules applies uniformly to both taxpayers and brokers, rather than forcing immediate taxpayer obligations before cross-venue tracking infrastructure exists.
3. **Prevent Regulatory Fragmentation:** Include a formal statutory directive instructing Treasury to refrain from unilaterally overlaying duplicative international reporting frameworks without explicit congressional authorization, keeping global data-sharing initiatives strictly bound by the domestic 1099-DA framework.
4. **Solidify federal supremacy:** As Illinois has just demonstrated, federal progress can be entirely undermined by state transaction taxes that specifically target digital assets. The Committee should consider legislation expressly preventing states from taxing the use of digital assets across state lines.

The choices this Committee makes now will echo across the global financial landscape for decades to come. By pairing a robust market structure framework with a modern, clear, and administrable tax code, Congress has the opportunity to complete the foundation for a U.S.-led digital asset economy.

Market structure provides the rules of the road. Tax policy determines whether entrepreneurs, developers, investors, and institutions choose to build, invest, and innovate here at home. Clear federal tax rules for digital assets can provide the certainty needed to avoid a patchwork of state-level tax regimes that would increase compliance costs and discourage innovation. If we get both right, the United States will not simply participate in the next generation of financial infrastructure - we will lead it.

Thank you, Mr. Chairman, Ranking Member, and the bipartisan leadership and staff of this Committee for your thoughtful work and engagement on these issues. I appreciate the opportunity to testify today and look forward to your questions.