

# **The Invisible Tax: Property Treatment, Compliance Burden, and the Hidden Cost Layer of Stablecoin Adoption**

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## **Abstract**

The GENIUS Act establishes a payment architecture designed to position stablecoins as functional equivalents of dollars in consumer transactions. The Internal Revenue Service, under authority established by Notice 2014-21 and extended by the 2024 digital asset regulations, classifies stablecoins as property. These two frameworks are in direct and unresolved conflict, and the conflict is resolved entirely at the consumer's expense. This paper identifies and analyzes the specific tax mechanisms through which the conflict manifests: the per-transaction taxable event created by the property classification for every stablecoin payment; the unresolved valuation problem for issuer-controlled reward tokens classified as ordinary income; the double taxation structure applied to stablecoin wages; and the 1099-DA reporting framework that addresses only the custodial transaction layer while leaving peer-to-peer and on-chain direct-payment transactions outside its scope. The compliance burden these mechanisms create scales with transaction frequency rather than transaction value, rendering routine daily stablecoin use administratively unworkable for individual consumers without paid software subscriptions or professional assistance. The intermediary compliance ecosystem that has emerged to manage this burden represents a structural cost of the stablecoin payment architecture that does not exist in the traditional dollar system. The legislative packages that constructed the stablecoin regulatory framework, GENIUS and CLARITY, did not address tax treatment. The resulting gap systematically disadvantages the consumers

these frameworks claim to protect while leaving stablecoin issuers operationally unaffected.

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## The Foundational Mismatch

The GENIUS Act constructs a legal and regulatory framework for stablecoins as payment instruments, instruments designed to function like dollars in consumer transactions. The Internal Revenue Service, operating under authority established by Notice 2014-21 and extended by the 2024 digital asset regulations, classifies stablecoins as property. These two frameworks are in direct and unresolved conflict.

A payment instrument that functions like a dollar but is taxed like a share of stock creates a compliance obligation for every transaction that no participant in the traditional dollar payment system faces. When a consumer pays for groceries with a debit card, there is no taxable event. When the same consumer pays for groceries with USDC, the IRS requires them to calculate the gain or loss on the disposal of that USDC: the difference between the cost basis at acquisition and the fair market value at the moment of payment. The gain may be \$0.002. It is still legally required to be reported. There is no de minimis exemption for stablecoin transactions under current law.

GENIUS creates the payment architecture. The IRS creates the compliance burden. Neither framework addresses the other. The consumer is caught between them.

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## The Per-Transaction Taxable Event Problem

The property classification means that every stablecoin disposal is a taxable event. The IRS definition of disposal is broad: selling stablecoins for fiat currency, exchanging one stablecoin for another, swapping stablecoins for any other cryptocurrency, and using stablecoins to pay for goods or services. Each of these events requires the taxpayer to determine the cost basis of the disposed stablecoins, calculate the gain or loss, classify it as short-term or long-term depending on holding period, and report it on Form 8949.

For a consumer whose primary transaction medium is a stablecoin, this means that every daily transaction, coffee, transportation, rent, utilities, groceries, is a taxable event requiring individual cost-basis tracking and gain/loss calculation. The gains on individual transactions are typically de minimis in dollar terms because stablecoins are pegged to one dollar. A \$4.50 coffee paid with 4.50 USDC acquired at \$1.0000 and disposed at \$1.0001 produces a \$0.00045 capital gain. Under current law, this must be reported.

There is no de minimis exemption for stablecoin transactions in U.S. tax law as of 2025. This is not an oversight that will be corrected by regulatory guidance, it is a statutory gap requiring legislative action. For comparison, Internal Revenue Code Section 988 provides a \$200 de minimis exemption for personal foreign currency transactions, recognizing that requiring taxpayers to track gains on small currency conversions is administratively unworkable. No equivalent provision applies to stablecoins. The IRS treats a USDT-to-USDC swap, two dollar-pegged instruments exchanging at effectively identical values, as a fully taxable disposal event, requiring cost-basis tracking and gain/loss reporting for both legs.

The compliance obligation does not scale proportionally with the transaction value. It scales with transaction frequency. A consumer making 10 stablecoin transactions per day generates 3,650 potentially reportable events per year, each requiring cost-basis identification under the per-wallet tracking rules that became mandatory on January 1, 2025 (Revenue Procedure 2024-28). A consumer making 50 transactions per day, well within the range of normal payment card usage, generates 18,250 reportable events annually. The administrative burden of accurate per-transaction cost-basis tracking at this frequency is not manageable by individuals without automated software tools, ongoing subscription costs, and some baseline level of tax literacy that cannot be assumed across the population the architecture claims to serve.

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## The Reward Token Layer: An Unresolved Valuation Problem

Working Paper 1 established that the reward token layer is where purchasing power erosion actually enters the stablecoin architecture; issuers over-incentivize adoption by distributing reward tokens whose value they control unilaterally. Working Paper 9 adds the

tax dimension: reward tokens received by consumers are taxable as ordinary income at fair market value at the time of receipt.

The valuation problem is immediate. Reward tokens issued by stablecoin platforms are not publicly traded instruments with observable market prices. They are issuer-defined credits redeemable for platform-specific benefits, bill discounts, merchant rewards, access privileges. The IRS requires that ordinary income be recognized at fair market value. For a liquid, publicly traded asset, fair market value is observable. For an illiquid, non-traded reward token whose redemption value is set by the issuer and whose secondary market does not exist, fair market value is a legal fiction requiring individual taxpayer determination with no authoritative guidance.

There is no IRS ruling, revenue procedure, or notice that addresses the tax treatment of non-traded issuer-controlled reward tokens specifically. The general principles applying to property received as compensation, fair market value at receipt and ordinary income treatment, apply facially. But if the issuer sets the reward token's notional value at, say, 10 cents per unit and distributes 1,000 units as adoption incentive, the IRS has no established methodology for verifying, challenging, or standardizing that valuation. The taxpayer is required to report ordinary income on an asset whose value is determined by the party with the greatest interest in minimizing that value for competitive purposes and maximizing it for the purposes of appearing generous.

The dual-nature problem compounds this. A consumer who receives 1,000 reward tokens as ordinary income at \$0.10 per token reports \$100 of ordinary income and establishes a \$100 cost basis. When those tokens are redeemed for \$80 in bill discounts, the consumer has realized a \$20 capital loss on top of the \$100 ordinary income already recognized. Two separate tax events arise from a single adoption incentive. Neither is practically trackable by the consumer who received the tokens without professional assistance.

This architecture systematically generates tax obligations at the point of maximum consumer vulnerability, the adoption phase when consumers have been over-incentivized to convert dollars to stablecoins and reward tokens, before the network effects that would justify the switch have materialized, and before the compliance infrastructure exists to manage the resulting obligations.

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## The Double Taxation Structure of Stablecoin Wages

Working Paper 3 identified the labor vector through which stablecoin compensation reaches employees: first through gig and contractor classification, then potentially through lobbying-enabled extension to W-2 employees. The tax dimension of this pathway adds a layer the labor analysis did not fully develop.

An employee receiving wages in USDC is taxed twice on the same value. The employer reports the fair market value of the USDC at the time of payment on the W-2 as ordinary wage income, subject to income tax, FICA, and self-employment tax where applicable. The employee recognizes ordinary income at that value. That value becomes the cost basis of the USDC received. When the employee spends that USDC on groceries, rent, or transportation, they recognize a second event: the capital gain or loss between the cost basis established at receipt and the fair market value at disposal.

Because USDC is pegged to the dollar, the second event typically produces a gain or loss of fractions of a cent. But it produces a reportable event that must be tracked, calculated, and filed. An employee receiving a monthly stablecoin salary and spending it over the course of the month may generate dozens or hundreds of individually reportable events on a paycheck that has already been fully taxed as ordinary income. The employee is not taxed twice on the same dollar amount; the capital gain is typically negligible, but they face compliance obligations on every subsequent disposal that cash wages would never generate.

This compliance burden falls asymmetrically. A high-income professional with access to tax software and accounting services can manage it. A low-wage worker paid in stablecoins, exactly the population described in Working Paper 3's company town endpoint, cannot. The compliance cost in time, software subscription fees, and potential professional assistance is a regressive tax on stablecoin adoption, falling heaviest on the workers least equipped to bear it and least able to model it when making compensation decisions.

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## The 1099-DA Framework and the Illusion of Enforcement

Beginning January 1, 2025, brokers, including custodial stablecoin platforms, digital asset exchanges, and hosted wallet providers, are required to report gross proceeds from stablecoin transactions on Form 1099-DA. Cost basis reporting was added for transactions beginning January 1, 2026. The IRS has framed this as a compliance improvement, providing taxpayers with the information they need to file accurately.

The 1099-DA framework addresses the institutional transaction layer, custodial platforms where brokers can be defined and identified. It does not address direct peer-to-peer stablecoin transactions, DeFi protocol interactions, or smart contract-mediated payments. As the architecture scales and consumers use stablecoins for daily purchases at merchants accepting on-chain payments directly, a growing share of transactions occurs outside the custodial framework where 1099-DA reporting applies.

The IRS has estimated, citing an internal study, that approximately 75 percent of taxpayers with digital assets were noncompliant with reporting requirements in 2023, before the 1099-DA framework existed, before GENIUS formalized stablecoin adoption, and at adoption levels a fraction of those projected for 2030. Mass non-compliance at current adoption scales will not be resolved by 1099-DA reporting for custodial transactions alone. It will escalate proportionally with adoption, producing a growing population of technically non-compliant stablecoin users who are unaware of their obligations, unable to meet them practically, or unable to afford the compliance infrastructure required to do so.

The enforcement asymmetry mirrors the broader power asymmetry of the architecture. Stablecoin issuers, with compliance officers, legal teams, and direct regulatory relationships, face manageable BSA and AML reporting obligations. Individual consumers transacting daily in stablecoins face theoretically unlimited per-transaction reportable events with no institutional support, no employer withholding, and no de minimis protection. The compliance cost falls entirely on the consumer. The issuer captures the float.

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## The Intermediary Ecosystem: A Hidden Tax on Adoption

The compliance burden described above is not absorbed by consumers silently. It is partially transferred to a new layer of intermediaries: crypto tax software providers, digital asset accountants, and compliance platforms, whose existence represents a structural cost of the stablecoin payment architecture that does not exist in the traditional dollar payment system.

A consumer using a bank account for all transactions faces no per-transaction tax compliance obligation beyond the annual reporting of interest earned. A consumer using stablecoins as a primary payment medium faces per-transaction capital gain/loss tracking, ordinary income recognition on reward tokens, cost-basis identification under the per-wallet methodology, potential quarterly estimated tax payments on accumulated micro-gains, and annual filing complexity that requires either significant personal time or paid professional assistance.

The market for crypto tax compliance software is growing at rates consistent with the adoption trajectory described in Working Paper 8. It is not a speculative market. It is an operational response to a documented compliance burden. Subscriptions to platforms like Koinly, CoinTracker, TurboTax Crypto, and comparable tools represent a direct tax on stablecoin adoption paid not to the government but to the intermediary layer that exists solely because the tax framework and the payment framework are not aligned.

This cost is invisible in standard analyses of stablecoin adoption economics. The reward token benefits offered during the adoption phase are visible. The compliance costs they generate are not. A consumer who receives \$100 in reward token value over the course of a year and pays \$120 for the crypto tax software required to report the associated ordinary income events has experienced a net negative outcome from the adoption incentive that cannot be recovered.

The intermediary ecosystem is not neutral. It is a rent on the gap between what the payment architecture requires and what the tax architecture permits, paid by consumers and captured by compliance intermediaries, a third category of private beneficiary of the stablecoin legislative framework, alongside issuers and large institutional banks.

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## The Legislative Gap and Partial Proposals

The tax treatment mismatch is not unrecognized. Senator Cynthia Lummis has introduced legislation proposing to leave staking and reward income untaxed until the underlying asset is sold, deferring recognition until the taxpayer has realized a liquid gain. House proposals have sought a five-year deferral window. Industry advocates have called for a de minimis exemption modeled on the IRC Section 988 foreign currency rule.

None of these proposals has been enacted as of May 2026. The GENIUS Act addressed reserve requirements, issuer licensing, BSA compliance, and consumer protection; it did not address tax treatment. CLARITY addressed market structure and SEC/CFTC jurisdiction; it did not address tax treatment. The legislative packages that constructed the entire stablecoin regulatory framework were passed without resolving the foundational tax architecture question that determines whether the framework is practically functional for the consumers it claims to protect.

The political economy of this gap is informative. Resolving the tax treatment in favor of consumers, through de minimis exemption, currency treatment for dollar-pegged stablecoins, or deferred recognition of reward tokens, reduces IRS revenue and requires Treasury cooperation. The same political spending infrastructure that produced GENIUS and CLARITY has not mobilized with equivalent intensity around tax reform, because the current tax treatment does not harm issuers. It harms consumers. Issuers face no per-transaction reportable events. They have every incentive to advocate for the payment architecture and no commensurate incentive to advocate for the tax reform that would make the payment architecture practically usable by the consumers they are acquiring.

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## Conclusion

The stablecoin tax framework as it currently operates imposes a hidden cost structure that no participant in the traditional dollar payment system faces. Every consumer stablecoin transaction is a taxable event with no de minimis threshold. Reward tokens are ordinary income at an issuer-determined value with no IRS valuation guidance. Stablecoin wages are taxed twice, as ordinary income at receipt and as capital gain or loss on every subsequent disposal. Compliance obligations scale with transaction frequency, not

transaction value. Mass non-compliance is structurally embedded at current adoption levels and will worsen proportionally with adoption growth. An intermediary compliance ecosystem captures rent on the gap between payment and tax frameworks, payable by consumers. The legislative packages that constructed the payment architecture did not address the tax architecture, because the mismatch harms consumers but not issuers.

The GENIUS Act creates a payment system designed to replace dollars in everyday consumer transactions. The IRS tax framework makes every transaction in that payment system more administratively burdensome than the dollar transactions it replaces. The combined effect is a hidden tax on adoption, borne by consumers, invisible in the legislative record, unaddressed by the framework that created it, and growing in proportion to the success of the architecture the framework was designed to enable.

The tax treatment question will not resolve itself through regulatory guidance. It requires statutory action. The same legislative infrastructure that constructed the GENIUS Act's payment architecture in the absence of a de minimis exemption is the infrastructure that would need to create one. The political economy that produced the gap is the political economy that must close it. As of May 2026, neither the incentive nor the legislative momentum for that closure exists.

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## References

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