

# SOVOS



A guide to  
navigating  
**1099-DA  
COMPLIANCE**

Sovos Compliance 2025



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# Introduction

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The world of cryptocurrency and digital assets is about to undergo dramatic change, bringing a host of new regulatory and tax compliance challenges for taxpayers, brokers and even the IRS itself. The introduction of Form 1099-DA marks a significant shift in reporting requirements, increasing the complexity and volume of tax reporting obligations for businesses operating in this space.

To successfully navigate these challenges, businesses must not only understand the evolving regulatory landscape but also implement scalable, technology-driven solutions. Manual processes and outdated systems will struggle to keep pace with the IRS's increasing oversight and the high transaction volumes associated with digital assets. Leveraging automation, data management tools, and integrated compliance platforms will be essential for businesses to ensure accuracy, efficiency, and adherence to IRS requirements.

In this eBook, we delve into the insights shared by Wendy Walker, a leading expert in tax compliance and VP of Regulatory Affairs at Sovos. Wendy provides a comprehensive overview of the current landscape, compliance challenges, and actionable insights for businesses navigating the 1099-DA reporting requirements. With a focus on technology as a critical enabler, this guide will help organizations develop a sustainable, future-ready approach to tax compliance in the digital asset economy.



# Chapter 1: The Current Landscape

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## Trends in Cryptocurrency and Digital Asset

The cryptocurrency and digital asset industry is experiencing significant regulatory and tax changes. In the United States, the IRS released long-awaited reporting regulations in 2024 requiring gross proceeds reporting on new Form 1099-DA beginning with 2025 transactions. This includes collecting certified U.S. taxpayer identification numbers on Form W-9, utilizing the IRS TIN matching system to verify the name and TIN combinations, and backup withholding 24% taxes on any payments that cannot be associated with a valid TIN from the payee.

Starting with 2026 transactions, cost basis details will also need to be reported on new Form 1099-DA. That means that for each sale, a digital asset broker will need to report the date the asset was purchased, determine cost basis, and calculate gain or loss and report those details on the Form 1099-DA.

## Global Regulatory Environment

Beyond the United States, the global regulatory environment is also evolving. Many crypto service providers operate internationally, facing different regulations in Europe, South America, and the Asia-Pacific region. The OECD's Crypto Asset Reporting Framework (CARF) and the European Union's DAC 8 are examples of global efforts to standardize reporting requirements for cross-border digital asset transactions around the world.



# Chapter 2: Compliance Challenges and Opportunities

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## Volume and Complexity

One of the most significant challenges is the sheer volume of transactions. The IRS expects to receive eight billion 1099-DA forms annually, adding to the existing five billion information returns they already receive every year. The significant volumes are attributed to two key reasons:

1. Cryptocurrencies are traded in fractional shares up to 16 decimal places so a single sale could require multiple 1099-DAs to be issued to the taxpayer.
2. The IRS requires 1099-DA forms to be reported for every sale transaction rather than requiring a single 1099-DA that reports aggregate transactions for the calendar year.

This volume presents logistical challenges for both the IRS and businesses, particularly in delivering and processing these forms.

## Cost and Practicality

The cost of compliance is another major concern. Printing and mailing billions of forms is not only expensive but also impractical. Since 1099-DA reporting is required to be completed for every sale, an active trader could be eligible to receive hundreds, thousands, even millions of 1099-DA forms. Even more daunting is the fact that the IRS requires businesses to conform to specific format requirements for issuing statements to payees.

Digital asset brokers are exploring ways to generate consolidated statements, electronic statements, and other approved tax statement formats to deliver tax information to these taxpayers in a usable and efficient manner.

## Technology and Scalability

Utilizing internal resources to build and maintain a portfolio of systems to support the tax withholding and information reporting process is nonsensical. The IRS and states change filing requirements every year, requiring development work and annual testing with the agencies before any 1099 returns can be filed. Outsourcing the critical compliance areas to third parties is beneficial because it provides cost savings, access to specialized expertise and resources, increased efficiency and productivity and promotes flexibility and scalability to adapt to not only the government changes but also business and market changes as well. Many exchanges are actively seeking technology providers that can handle high transaction volumes and integrate seamlessly with their existing platforms.



# Key Challenges and Benefits of this New Reporting Requirement



## For Taxpayers

### Transparency and simplicity

- ✓ **Clear record of transactions:** The 1099-DA provides a clear record of transactions, eliminating the need for taxpayers to manually compile data from various exchanges.
- ✓ **Simplified tax reporting:** This form simplifies the process of identifying buy and sell transactions, fees, and basis, making income tax reporting more straightforward.

### Demand for tax information

- ✓ **Standardized form:** Taxpayers have long requested a standardized form to streamline their income tax reporting process. The 1099-DA answers this call, reducing the confusion and effort involved in reporting crypto transactions.



## For the IRS

### Enhanced compliance

- ✓ **Third-party reporting:** The 1099-DA is a crucial tool for the IRS to enforce income tax compliance by matching reported income with 1099-DA data.
- ✓ **Accurate tax assessment:** This helps the IRS more accurately assess tax liabilities and close the tax gap.

### Regulatory efforts

- ✓ **Regulating the crypto industry:** The introduction of the 1099-DA is a significant step in the IRS's efforts to regulate the crypto industry and gather necessary data to enforce tax laws effectively.



## For Brokers

### Customer service experience

- ✓ **Optimized Tax Documents:** Providing specialized tax documents helps brokers meet their clients' tax reporting needs and enhances their financial service offerings.

### Risk and liability management

- ✓ **Compliance Benefits:** Adhering to 1099-DA reporting requirements helps brokers minimize the risk of audits and penalties, ensuring they remain in compliance with tax regulations while avoiding potential fines and legal complications.

# Chapter 3: Practical Steps for Compliance

## Understanding Requirements

Businesses must first understand the specific requirements of the 1099-DA regulations applicable to their product offerings in order to determine their reporting obligations. For example, organizations with stablecoin products may need to report aggregated transactions rather than reporting every sale on a separate 1099-DA {which is required for sales of cryptocurrencies and other digital assets}. It is important to do a proper analysis of all products to ensure all reportable transactions are captured. A relator filed a complaint in March 2018, alleging that USHW failed to comply with the Unclaimed Property Law (UPL) by not reporting and remitting unclaimed property to California, which constituted violations of the California False Claims Act (CFCA).



## Stakeholder Identification

Identifying internal stakeholders is crucial to implementing a sustainable reporting process. This includes product managers, legal and tax professionals, customer service and operational teams responsible for collecting and reporting customer tax data.

## Policies and Procedures

Developing robust organizational policies and procedures is essential. The IRS initiates audit processes by requesting these documents, so businesses must ensure they have documented clear guidelines for collecting W-8 and W-9 forms, backup withholding on applicable transactions, and reporting Form 1099-DA as required.



## Leveraging Technology

Investing in scalable technology solutions is essential as the 1099-DA reporting process evolves with increased IRS oversight of crypto transactions. Businesses should partner with experienced solution providers that address the complex challenges of compliance, including efficiently gathering and verifying W-8 and W-9 forms, ensuring accurate tax withholding and maintaining detailed cost basis records, and utilizing comprehensive solutions that streamline 1099-DA reporting to the customer, the IRS, and the state tax agencies.

By adopting integrated, scalable platforms, businesses can enhance efficiency, mitigate compliance risks, and stay ahead of evolving tax regulations.

# Chapter 4: Looking Ahead

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## Future Regulations

The regulatory landscape is continually evolving. Businesses must stay informed about upcoming regulations and be prepared to adapt their compliance strategies accordingly. This includes planning for changes to technology, procedures, and personnel in order to comply with potential additions to crypto reporting requirements such as Form 1042-S reporting for digital asset transactions involving foreign persons; or changes to the cost basis calculations to apply wash sale rules to crypto transactions.

Staying proactive and adaptable in response to regulatory changes is essential for businesses to maintain compliance and mitigate risks. As reporting requirements continue to evolve, particularly in areas like digital asset transactions, businesses must closely monitor updates, implement necessary adjustments, and ensure their compliance strategies align with the latest regulatory expectations.

## Integrating Compliance into Tax Strategy

Compliance should be integrated into the broader tax strategy. This involves ongoing maintenance and updates to ensure systems and processes remain compliant with new regulations. Businesses should also consider the long-term costs and benefits of their compliance strategies.

## The Role of Technology Providers

Technology providers play a critical role in helping businesses manage compliance. As businesses expand through mergers and acquisitions or add new product offerings that generate tax reportable income, so do their tax withholding and information reporting obligations, by leveraging technology and automation, businesses can efficiently manage increased tax withholding and reporting obligations without the need to allocate additional resources, ensuring compliance while maintaining operational efficiency.

Companies should seek scalable solutions with experience in information reporting and withholding technology, including high-volume transaction processing and a track record of successful integrations.





# Conclusion

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As the regulatory landscape for digital assets continues to evolve, businesses must take a proactive approach to compliance with the new 1099-DA reporting requirements. The complexity and volume of transactions demand strategic planning, investment in scalable technology, and a deep understanding of regulatory obligations. From collecting W-8 and W-9 forms to accurately tracking cost basis and producing clear and user-friendly 1099-DA statements that meet IRS compliance requirements, businesses must integrate compliance into their broader tax strategies to mitigate risks and streamline operations.

Technology providers play a pivotal role in helping organizations navigate these challenges, offering solutions that automate compliance processes, enhance accuracy, and reduce operational burdens. As businesses grow and regulations continue to change, leveraging advanced compliance technology and staying informed on emerging requirements will be critical to maintaining compliance and operational efficiency.

By adopting a structured and technology-driven approach, businesses can not only meet their 1099-DA obligations but also position themselves for long-term success in an increasingly regulated digital asset market.

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