

SOVOS

# How to Get Your Organization in Compliance Fighting Shape

A High-Intensity Compliance Guide

Presented by Sovos in partnership with:  
Comply Exchange | Chainalysis | Ledgible | Label

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## About This Guide

# Six Disciplines. One Comprehensive Compliance Playbook.

The regulatory landscape for digital assets is accelerating at an unprecedented pace. Crypto firms face an unprecedented convergence of U.S. tax obligations this filing season - from the first-ever 1099-DA requirements and W-8/W-9 documentation to state reporting deadlines - while separately navigating year-round unclaimed property compliance and the rollout of global CARF reporting frameworks.

This guide distills key insights from compliance experts at Sovos, Comply Exchange, Chainalysis, Ledgible, and Label across five critical disciplines. Each section is designed to build the compliance capabilities your organization needs to outperform in 2026 and beyond.

### **Disclaimer**

*This guide is intended for informational purposes only and should not be considered tax or legal advice. Please consult qualified counsel for your specific compliance needs.*

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Tomer Siegel, Ledgible

## Discipline 1

# Cryptocurrency & Unclaimed Property

Freda Pepper, General Counsel, Unclaimed Property — Sovos

### The Basics: What is Unclaimed Property?

Unclaimed property is any financial obligation owed to a party where the owner cannot be located and there has been no owner-initiated contact for a statutorily defined dormancy period — typically three to five years. Traditional unclaimed property includes uncashed checks, dormant bank accounts, and unredeemed gift cards. Increasingly, it also includes digital assets and cryptocurrency.

Under state unclaimed property laws, companies are legally obligated to:

- Identify unclaimed assets
- Notify rightful owners through due diligence correspondence
- Annually report and remit property to the appropriate state

#### Key Fact

The vast majority of unclaimed property is never claimed, making cryptocurrency a lucrative and growing revenue stream for states. The term 'virtual currency' first appeared in unclaimed property law in 2016, and 25 states have since adopted laws addressing digital assets.

### The Crypto Compliance Complexity

States have adopted varying requirements with no uniform standard. Key challenges include:

- Dormancy periods of only 3–5 years triggered by last owner-generated activity — or, increasingly, by returned mail or email
- Most states require liquidation of crypto before reporting, creating significant valuation risk given market volatility
- Some newer state programs require transfer of digital assets in native form, yet many states lack the operational capability to receive them

- Due diligence mailings are difficult or impossible for crypto accounts that lack traditional mailing addresses — yet states like California still require certified mail for all unclaimed crypto property, regardless of value

#### Compliance Risk

States possess broad audit authority, often utilizing third-party audit firms working on contingency. Virtual currency is actively being added to existing audits. Penalties and interest for non-compliance can be substantial.

### What Your Organization Should Do Now

States have adopted varying requirements with no uniform standard. Key challenges include:

- Create unclaimed property policies and procedures that include proactive steps to protect client accounts
- Implement systems that encourage regular customer engagement to reset dormancy clocks
- Develop robust processes to identify, track, and monitor potentially dormant accounts
- Prioritize early identification — it allows time for outreach before dormancy periods expire



## Discipline 2

# W-8/W-9 Collection & Validation

Jessica Zeltzer, Director of Client Services & Chief Customer Officer — Comply Exchange

## Why Tax Documentation Is Your Compliance Foundation

W-8 and W-9 collection is one of the most overlooked areas of crypto compliance. As digital asset regulations evolve in the US and globally, there is more complexity, more scrutiny, and less room for error. Getting documentation wrong at onboarding doesn't just create an onboarding problem — it creates a downstream remediation project affecting withholding, reporting, and customer relationships. Notify rightful owners through due diligence correspondence

### Core Principle

Tax documentation is not a one-time requirement. Think of it as a living obligation that must be collected, validated, monitored, and renewed throughout the customer lifecycle.

## The 3 Most Common W-8/W-9 Failure Points

### 1. Collecting a form does not mean collecting a valid form.

A PDF in a folder does not equal compliance. Forms fail when: the wrong form type or revision is used, required fields are missing or incorrect, signatures don't meet IRS requirements, or the form has simply expired (W-8 forms have a natural end-of-life).

### 2. Manual processes don't scale.

Spreadsheet trackers may work for 200 customers but quickly break down at scale — leading to inconsistent review standards, no audit trail, poor data security, and fire drills before every reporting deadline.

### 3. Expiration and changes in circumstance.

W-8 forms have a natural end-of-life. Without monitoring and resolicitation workflows, an expired form can trigger an unexpected withholding event. Changes in circumstance can also invalidate a form before it naturally expires.

## What 'Compliance Fit' Tax Documentation Looks Like

- Smart digital collection built into the onboarding flow — not chased after the fact
- Automated validation with rules-based review — not everything requires a human reviewer; the goal is 99% straight-through processing
- Ongoing compliance: expiration monitoring, re-solicitation workflows, and audit trails for historical records.

### 2026 Takeaway

This is not the year to rely on manual touchpoints and disconnected tools. W-8 and W-9 collection and validation must be automated and embedded in your workflows from day one.

## Discipline 3

# Leveraging Blockchain Data for CARF & DAC8

Roger Brown, Global Head of Tax Strategy — Chainalysis

## Understanding CARF: The Global Standard

Approximately 73 countries have agreed to comply with the Crypto Asset Reporting Framework (CARF), the OECD's new global standard for automatic exchange of tax information on crypto assets. The first data exchanges begin in 2027 (for 2026 transactions), expanding through 2029.

Under CARF, Reporting Crypto Asset Service Providers (RCAs) are required to:

- Identify customers
- Collect information on transactions and transfers
- Report data to the tax authority with highest nexus
- Enable tax authority-to-tax authority data exchange for the customer's jurisdiction of residence

### Important Distinction

CARF reporting covers not just transactions occurring on the platform but also transfers to and from the exchange — including inbound/outbound transfers, staking, mining, loans, transfers to private wallets, purchases of goods, and transactions exceeding \$50,000.

## Why Blockchain Data Quality Is Critical

Blockchain businesses are identified by the wallet addresses they control. The quality of blockchain data — specifically wallet clustering — directly impacts compliance accuracy. If a transfer is made to a wallet address not correctly clustered with known exchange wallets, it may be misclassified as a transfer to an unhosted private wallet, resulting in inaccurate CARF reporting.

- Many exchanges already monitor these transfers for AML, CFT, and counter-proliferation financing (CPF) reporting
- CARF requirements are largely a subset of these existing rules — existing blockchain data infrastructure can be leveraged for dual compliance purposes
- Non-compliance penalties are real: the UK has published a penalty of £300 per customer for late, inaccurate, incomplete, or unverified reporting.

## Discipline 4

# Cost Basis Calculation & 1099-DA Reporting

Tomer Siegel, VP of Product — Ledgible

## Where the US Reporting Requirements Stand

Digital asset reporting is already in motion:

### 2025

Brokers are required to report gross proceeds on sales occurring on or after January 1, 2025. Cost basis is not required for 2025 transactions.

### 2026

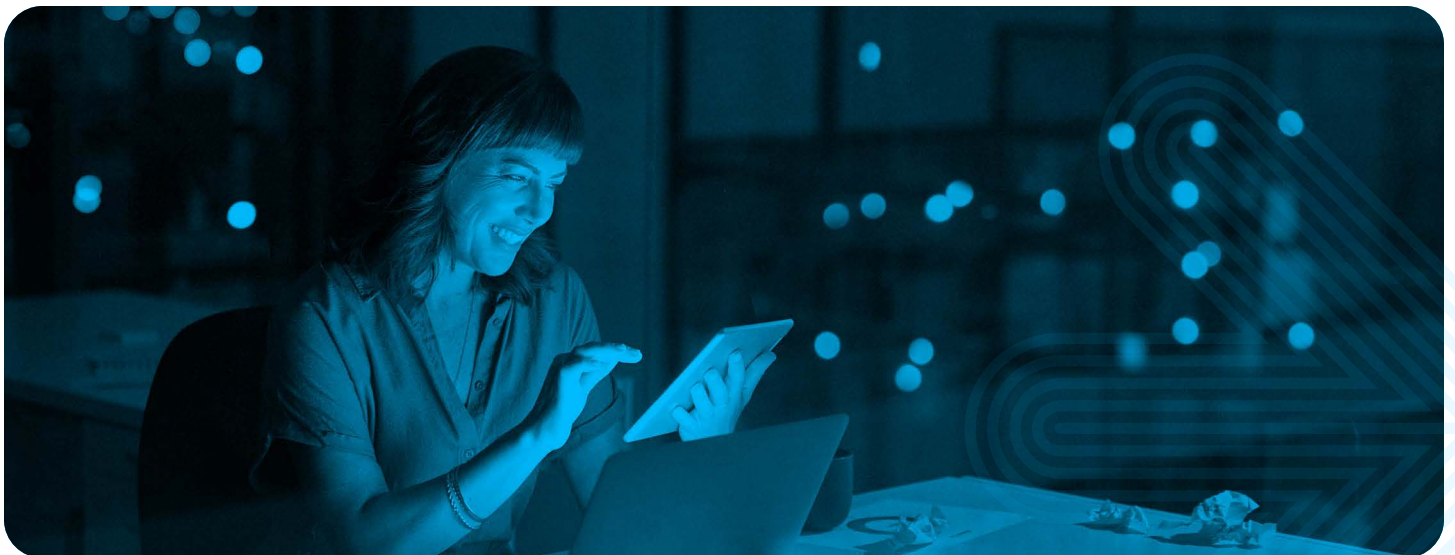
Brokers must report both gross proceeds and cost basis for 'covered' digital assets. Covered assets are those acquired on or after January 1, 2026, and held by the broker through disposition.

### Non-Covered

Assets acquired before 2026 or transferred in are 'non-covered' — basis reporting is not required.

### Complexity Alert

Cost basis reporting for digital assets is significantly more complex than for traditional securities. Many of the crypto transactions types do not exist in the normal brokerage world. In addition transaction fees can be paid from the acquired asset, the disposed asset, or a completely separate asset — each with its own tax treatment



## What a Compliant Cost Basis Engine Must Do

- Capture all data required for calculation and 1099-DA reporting
- Support lot disposal mechanisms and relief methods: FIFO, LIFO, HIFO, Spec ID
- Identify which events are taxable and which are covered
- Handle complex DeFi events: staking, airdrops, forks
- Perform realized and unrealized gain/loss calculations
- Reconcile data and support correction workflows with a robust audit trail

## CARF & DAC8: The Global Picture

DAC8 is the EU's implementation of CARF, and 70+ jurisdictions are already committed. Wave 1 (2027 data exchange, for 2026 transactions) includes the UK, EU, and Japan. Wave 2 (2028) covers most remaining countries. The US is expected to join in Wave 3 around 2029.

Key nuance: CDBC's and specified electronic money products (SEMPs) like regulated stablecoins are excluded from CARF (they fall under CRS 2.0) — but not all stablecoins are regulated in all jurisdictions, and a stablecoin's classification can change mid-year.

Brokers will need to be able to:

- Capture all data required for CARF/DAC8, CRS, and FATCA reporting
- Reconcile data and support correction workflows with a robust audit trail
- Identify when stablecoins is treated as fiat currency and when it is treated as a crypto asset
- Identify the reportable transactions for the various tax regimes (CARF and/or CRS and/or FATCA)
- Correctly handle complex DeFi events: staking, airdrops, forks
- Categorize the data to the appropriate reporting groups and subgroups

## Discipline 5

# CARF Operational Readiness & Reporting Execution

Scott Nice, Chief Revenue Officer — Label

## Data Aggregation Is Not Enough

Once transaction and asset data has been aggregated upstream, the real challenge is turning it into something compliant, reportable, and defensible under CARF. Execution-phase requirements include:

- Customer data handling and due diligence
- CARF self-certification data management and validation
- Determining ultimate reportability factoring jurisdictional thresholds
- Creating CARF XML reporting files ready for submission to tax authorities

### Hard Truth

In every tax transparency regime — FATCA, CRS, and now CARF — customer data is the single biggest risk area. Firms need to know what data they hold versus what CARF actually requires, for both new and existing customers.

## Avoid the Annual Remediation Trap

One of the most persistent failures under FATCA and CRS has been the annual ‘clean-up cycle’ — firms contacting the same customers, re-fixing the same data, year after year. CARF is not the place to accept this as normal.

- Onboarding must be tightened — data collection standardized, validated, and sense-checked for reasonableness
- Pre-existing account remediation programs must be set up now — not three weeks before the reporting deadline
- Misreporting under CARF isn’t minor: it triggers regulatory scrutiny, audits, fines, mandatory remediation programs, and reputational damage

The right technology now exists to eliminate this cycle. CARF is not the place to experiment with unproven tools or teams without the right experience.

## The Connected Operating Model

End-to-end CARF success comes from a connected operating model. An example of this in practice: Ledgible upstream (aggregation, normalization and transaction classification) + Label downstream (due diligence and reporting execution) + Sovos supporting the broader regulatory ecosystem including the 1099-DA.

The focus for 2026 should not be on memorizing timelines and rules. It should be on governance, data quality, operational readiness, and building infrastructure that works year after year.

## Discipline 6

# Indirect Tax, 1099-DA Reporting & What Comes Next

Wendy Walker, VP of Regulatory Affairs — Sovos

## Indirect Tax When Crypto Is Used for Commerce

When digital assets are used to pay for goods or services, there are two tax sides to every transaction: the buyer may have a capital gains event, and the seller has an indirect tax obligation on the underlying good or service. Indirect tax is triggered by the sale itself — not by the payment method. Whether a customer pays with dollars, a credit card, or Bitcoin, the same VAT or sales tax rules apply.

### Key Principle

From an indirect tax perspective, digital assets are simply a payment rail. The taxable event is the sale of the good or service — not the use of the digital asset.

## Marketplace Liability & Platform Fees

In many jurisdictions, crypto marketplaces that facilitate commerce are treated as the seller for indirect tax purposes — even when a third-party merchant is providing the actual good or service. This means the platform is responsible for calculating, collecting, and remitting tax to the authority. Additionally, the platform's own service fees can be subject to VAT - potentially in different jurisdictions with different rules and obligations.

Getting indirect tax right requires:

- Determining whether the underlying goods or services are taxable in the relevant jurisdiction
- Identifying the correct taxing jurisdiction in real time
- Determining who is responsible for collecting and remitting tax

In VAT and continuous transaction control regimes, an invoice must be validated by the tax authority before a transaction can legally complete — making indirect tax a transaction business continuity issue, not just a tax compliance issue.

## 1099-DA: You Are In The Filing Season Right Now

This is not a future risk — The current U.S. tax filing season marks a critical inflection point for crypto firms, introducing first-ever 1099-DA requirements, heightened W-8/W-9 documentation standards, and state reporting obligations — separate from, but concurrent with, ongoing unclaimed property compliance and the global expansion of CARF reporting frameworks.

Key deadlines:

- Recipient statements: due February 17
- IRS filings: due March 31
- State filings: January 31 – March 31 (varies by state)

## The 4 Critical Execution Risks This Season

### Risk 1

#### Getting reportability right

Not every transaction triggers a 1099-DA, and not every payee is required to receive one. Get this wrong in either direction and the consequences follow – over-reporting generates incorrect statements and customer disputes, while under-reporting creates penalty exposure. Misclassifying reportability at this stage corrupts every form that flows downstream.

### Risk 2

#### Capturing valid payee identity data

Forms W-9/W-8 data must match AML/KYC data collected for the same payee, and the legal name and taxpayer identification number must be validated against IRS records. Name/TIN mismatches don't result in rejected 1099-DA forms – they result in automatic IRS penalties and 24% backup withholding requirements.

### Risk 3

#### Delivering accurate recipient statements

Recipients treat these statements as source documents for their own tax returns. An incorrect 1099-DA doesn't just trigger a customer dispute – it can cause the customer to misreport their income, creating tax exposure they didn't ask for. And the risk runs both ways: issuers who file incorrect statements or fail to file when required face penalties under IRC 6721. Every error becomes a support ticket. Every ticket becomes a dispute. Every dispute compounds regulatory and penalty exposure on both sides of the form. Accuracy is non-negotiable.

### Risk 4

#### State reporting — the biggest execution gap

State 1099-DA reporting requirements do not follow the IRS. Different formats, reporting thresholds, and submission processes across states. Federal filing is hard — state filing at scale is where most platforms discover they're not ready.

## What's Coming Next

- **2026:** Cost basis capture began January 1. Lot-level tracking, acquisition and disposition dates, reconciling billions of records.
- **2027:** Backup withholding begins January 1. When triggered, 24% must be deducted from the recipient's gross payment and remitted directly to the IRS — and many states impose their own backup withholding requirements on top. Deposits follow strict IRS and state payment schedules, with reconciliation returns required throughout the year.

### This Is Your Last Easy Year

The 2025 filing season was gross proceeds only, with good-faith effort reporting and lenient IRS penalties. No cost basis reporting. No backup withholding. But everything you build now — or fail to build — becomes the foundation for much harder regulatory years ahead.

## Key Takeaways

# Your 2026 Compliance Checklist

The obligations covered across these six disciplines are not emerging risks — they are active requirements demanding immediate attention. Use the checklist below to assess where your organization stands in each area and identify the gaps that carry the greatest risk heading into 2026 and beyond. Prioritize early action: in digital asset compliance, the cost of delay compounds quickly.

### Unclaimed Property

- Audit dormancy periods across your customer base
- Implement proactive customer engagement programs
- Develop policies for identifying and tracking potentially dormant crypto accounts

### Tax Documentation (W8/W9)

- Automate W-8/W-9 collection within your onboarding workflow
- Implement expiration monitoring and automated resolicitation
- Build audit trails and historical recordkeeping for ongoing compliance

### CARF & Global Reporting

- Assess your blockchain data quality and wallet clustering accuracy
- Leverage existing AML/CFT data infrastructure for CARF compliance
- Begin CARF gap analysis and remediation exercises now — don't wait
- Implement capabilities to identify reportable data, categorize and aggregate it correctly
- Enable capabilities to create XML payloads to all reportable jurisdictions and file them

### Indirect Tax

- Assess marketplace facilitator status across all operating jurisdictions
- Evaluate VAT obligations on platform fees globally
- Ensure tax determination and invoice validation are embedded in transaction flows

### 1099-DA & US Reporting

- Validate reportability logic before generating any forms
- Confirm W-9/W-8 data matches IRS records across your book
- Build state reporting infrastructure — don't rely on federal-only workflows
- Start cost basis tracking for all covered assets acquired in 2026
- Implement a compliant cost-basis calculation engine, and test it before the end of the year

**Ready to build your compliance program?**

**Get Started Today**