CCI | Crypto Council for Innovation

Staking Tax Considerations

Crypto is a rapidly growing ecosystem with a diverse and growing set of uses that can benefit American residents and enterprises. To ensure that core infrastructure supports market stability and national security, clear policy on staking that supports innovation must be prioritized.

STAKING AS CRITICAL INFRASTRUCTURE

Proof-of-Stake (PoS) is an increasingly popular form of blockchain validation due to its efficiency and security. PoS networks secure billions of dollars for major firms active in the U.S. and underpin rapidly growing ecosystems. Top networks include:

- **Ethereum (ETH):** Over $68B TVL, driven by liquid staking and DeFi.
- **Solana (SOL):** $13B TVL, driven by high volume of both financial and non-financial transactions and DeFi activity.
- **Avalanche (AVAX):** $2.1B TVL, as an increasingly important institutional bridge into crypto.

Staking in crypto is a method of making the blockchain network more stable, efficient, and secure by incentivizing ecosystem participants to validate and add new blocks to a blockchain.

PROOF-OF-STAKE NETWORKS

In proof-of-stake networks, decentralized validators verify transactions and add blocks to the immutable ledger. To participate, validators must lock up crypto assets as collateral (their "stake") to earn newly created tokens as rewards for committing resources to support honest validation.

Participants can engage via two methods:

- ***Operate their own validator nodes and engage in "solo staking"*** (this requires technical expertise and meeting protocol-specific requirements, making it rare – fewer than 6% of all validators)
- ***Delegate assets to staking-as-a-service providers*** who handle technical operations for a fee. Providers can serve both institutional clients and retail investors.

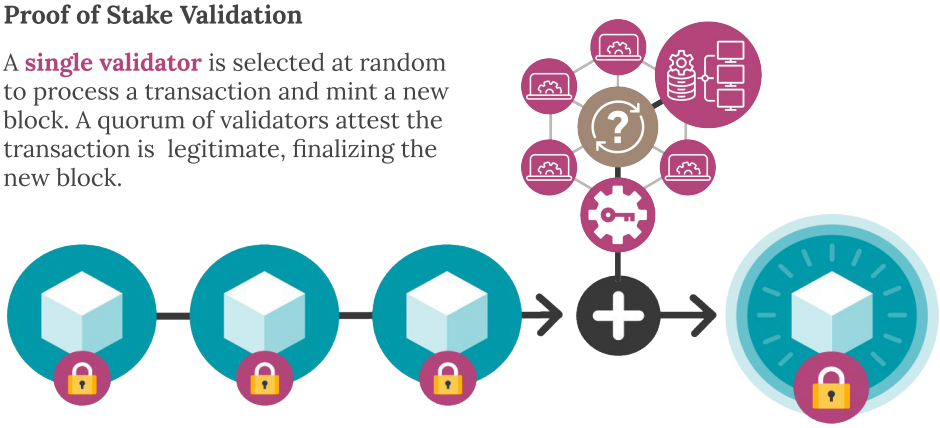
ENHANCED STABILITY AND SECURITY

Protocols require staked assets to remain locked for periods ranging from minutes to weeks after which users can freely transfer or sell their tokens. These lock-up requirements discourage short-term speculation and promote network stability. Honest validators are rewarded with additional tokens, creating positive economic incentives that make compliance more profitable than malfeasance.

The enhanced security staking offers comes from the fact that a successful attack on a proof-of-stake network requires controlling a majority of staked tokens (51%). Even if a malignant actor could afford this, the attack would crash the token's value, destroying the attacker's investment.

Proof of Stake Validation

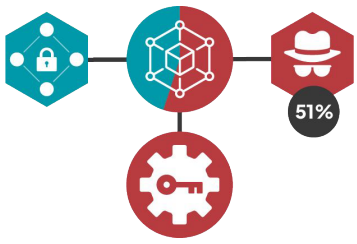
A **single validator** is selected at random to process a transaction and mint a new block. A quorum of validators attest the transaction is legitimate, finalizing the new block.



Validated transactions on the blockchain

Newly validated transaction

Attackers would need to control more than 51% of all nodes; rewards incentivize greater decentralization of validators, further securing the network.



CCI | Crypto Council for Innovation

Staking Tax Considerations

Clear tax policy for staking will protect American innovation and keep it onshore.

An unclear regulatory environment creates burdens for everyday Americans, U.S. industry and innovators.

Without clear rules, uncertainty penalizes U.S.-based infrastructure and pushes validators abroad. Clear policy that treats staking rewards for non-U.S. persons as foreign source income and as taxed as gains only when sold, will help place U.S. staking infrastructure and partners on a level playing field with foreign counterparts.

CCI's membership represents key industry leaders, who report:

- **Staking providers report that their clients are requiring validation from non-U.S. providers to reduce risk** in the context of tax policy uncertainty.
- **As a result, many industry leaders report that a majority of their validators are located outside of the United States**, with a growing share located in other jurisdictions.
- **Industry leaders are making significant investments in infrastructure and talent outside of the U.S.** to service validator infrastructure in other jurisdictions – investments that could be happening onshore.

CCI is conducting more in-depth research on these topics and can share forthcoming findings with staff members upon request.

"Many of our customers, both US and non-US, from all different business lines (asset managers, custodians, exchanges, VCs, etc) request we represent contractually that our validators are not hosted in the U.S. The requests are made to help mitigate any UBTI or ECI risk until clarity is provided. These are typically hosted in the EU or Canada as opposed to the US."

- *A major institutional staking-as-a-service provider, serving U.S. based clients*

To apply longstanding tax principles to this new technology, Congress should clarify that:

- **Tax Treatment of Staking and Mining Rewards:** Staking and mining rewards should be treated like all other created property – i.e., taxed at the time of sale not at the time of creation.
- **Source:** The source of staking rewards should not depend on the location of the validator, placing U.S. staking nodes and partners on a level playing field with foreign counterparts.
- **Unrelated Business Taxable Income:** We recommend that the investment income carveout from unrelated business taxable income be expanded to include periodic income from digital assets, including staking reward income, consistent with the treatment of similar income for tax-exempt investors.
- **U.S. Digital Asset Investment Structures:** While the IRS's recent Revenue Procedure 2025-31 creates a safe harbor for staking in ETPs, we recommend legislation that would further cement (i) updates to the grantor trust rules to expressly provide for the flexibility needed to permit staking activities in a grantor trust, and (ii) updates to the "qualifying income" exception to the publicly traded partnership rules to include staking income.

The Crypto Council Innovation (CCI) is a global alliance of industry leaders in the digital asset and crypto sectors that serves to educate consumers and policymakers and advocate for policy that spurs responsible innovation. We believe that trusted partnership between government and business stakeholders is key to crafting inclusive policy that benefits consumers and industry alike.

For more information, please email alison@cryptocouncil.org.

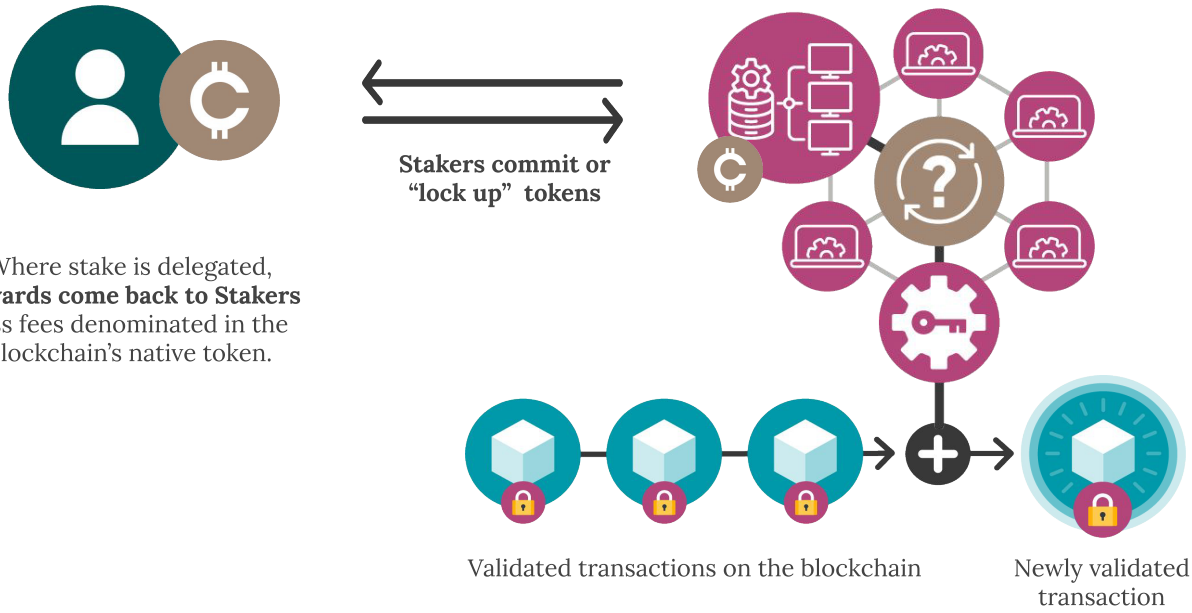
CCI | Crypto Council for Innovation

Staking Tax Considerations

The process of Proof-of-Stake validation includes two key types of actors – Validators and Stakers. These actors perform separate functions in the staking process that should be considered separately from a tax lens.

STAKERS
Stakers delegate assets for lock up as collateral to the protocol earn rewards (primarily via service providers)

VALIDATORS
Established validators confirm the state of the chain in compliance with the protocol's requirements



STAKERS

Provide tokens to be locked to support staking.

Stakers may stake tokens directly by running their own hardware and software, though the vast majority (~94%) of institutions and retail customers use staking-as-a-service providers to manage their staking and coordinate with validators.

After lock-up periods end, Stakers receive rewards from the blockchain in the form of the blockchain's native tokens.

However, the *value* of these token rewards is not realized by stakers until the tokens are sold.

(The exception is cases of solo stakers, who both stake and validate their own transactions.)

VALIDATORS

Use physical infrastructure and provide support services to execute validation.

This physical infrastructure requires investment and talent to operate, which may also provide utility for other tech and innovation use cases.

Validators may operate single nodes, or operate large numbers of nodes. Due to operational costs, many operators make significant investments to operate several or many nodes.

Validators often hold tokens for more than one Staker.

Rewards are paid by network fees and newly minted tokens, not as a share of Stakers' principal.

(In some cases, there are solo stakers, but they may constitute as few as 6% of all validators.)

CCI | Crypto Council for Innovation

Staking Tax Considerations

Uncertainty around taxation of staking activity and rewards is discouraging investment in U.S. based firms and commercial activities. Two key tax issues are sourcing and timing of taxation of staking rewards.

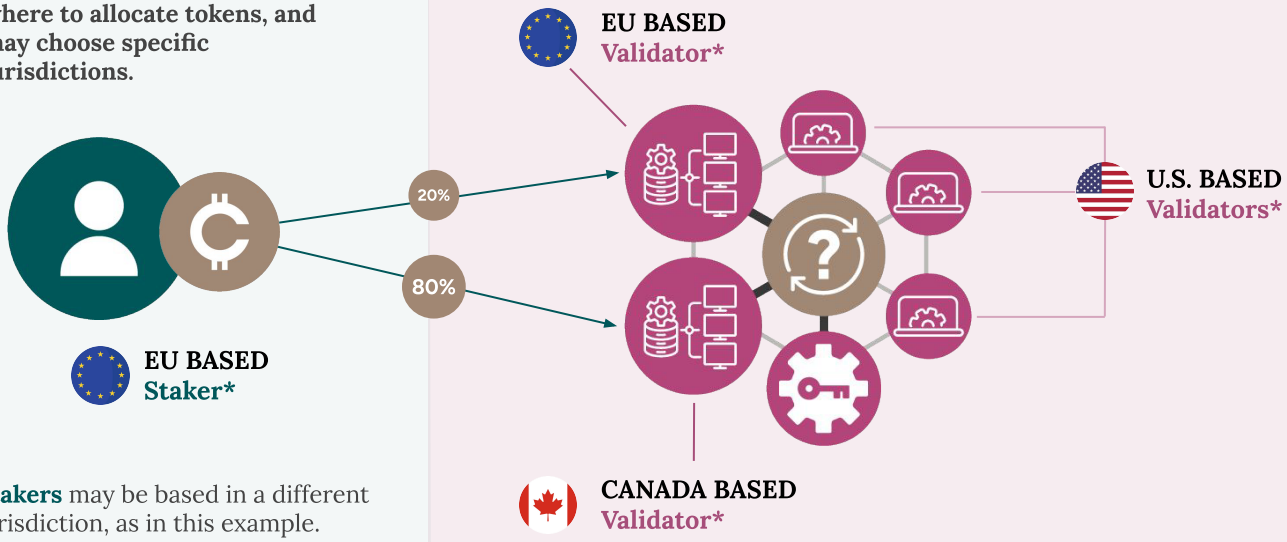
SOURCING

Due to blockchains' decentralized nature, the infrastructure used to validate transactions on the blockchain may be sourced from U.S. based or international validators, in jurisdictions that may be different/separate from that of staking service providers.

So long as validators and delegators comply with protocol rules, staking that is based anywhere can seamlessly integrated into the network. This means that international firms may wish to invest in U.S. infrastructure and talent.

Currently, without clear rules to the contrary, tax advisors assess staking income as sourced to wherever the staking infrastructure is located (similar to cloud service infrastructure), which could result in 30% withholding tax on foreign investors who stake through U.S. service providers.

Stakers have the choice of where to allocate tokens, and may choose specific jurisdictions.



Stakers may be based in a different jurisdiction, as in this example.

While validation occurs in the U.S., rewards for staking are not created until the EU-based staking provider until confirmation of delegated stakes is returned to the provider.

**These are examples; activities are not specific to jurisdiction.*

Validator "nodes" representing physical infrastructure and support services may be located in one jurisdiction, where the individual or firm has invested in infrastructure.

Each **Validator** serving a network may be located in a different jurisdiction.

They are compensated for services via service fees, separately from the principal staked by Stakers.

CCI | Crypto Council for Innovation

Staking Tax Considerations

Uncertainty around taxation of staking activity and rewards is discouraging investment in U.S. based firms and commercial activities. Two key tax issues are sourcing and timing of taxation of staking rewards.

TIMING

While staking provides rewards to those who participate, its function is to provide critical infrastructure.

Value is not realized at the time of creation (e.g. while staking), but when rewards are subsequently transacted or sold.

Firms and individuals are incentivized to continue staking and validating – and therefore shoring up network stability – when rewards are credited to a taxpayer at zero basis and then taxed as gains only when sold, consistent with economic substance.