

Securing the Future of Digital Finance Infrastructure

Taxation of Staking Rewards
for Proof-of-Stake Networks

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About CCI

CCI is a global alliance of the world's leading crypto exchanges, asset managers, infrastructure providers, institutional investors, and fintech companies. Our members collectively serve tens of millions of U.S. customers, manage trillions of dollars in assets, and employ thousands of American workers. We support a fair and sensible digital asset tax framework because we believe that greater clarity will foster compliance, enable consumer use cases, and drive continued industry development here in the United States.

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01

Introduction

Introduction

The time is now for a fair and sensible digital asset tax framework.

Tax policy is a critical component of a comprehensive digital asset legislative framework. Greater tax clarity will foster compliance, enable consumer use cases, and drive continued industry development in the United States — while stemming the outflow of talent, capital, and infrastructure to jurisdictions that have provided clearer rules.

The stakes are concrete. As much as 80% of crypto developers now live outside the United States (per Electric Capital's Developer Report), and institutional staking customers are actively requiring that validator infrastructure be located outside the U.S. to mitigate tax uncertainty.¹ Tax ambiguity is not a theoretical risk — it is reshaping operational decisions today.

Discussion of the need to advance a suite of bills by the House Ways and Means Committee (W&M Bills), in part informed by previously introduced Digital Asset Tax Parity Act (Parity Act), is critical to producing a workable, comprehensive framework.² Key areas of consideration include the treatment

of staking and mining rewards, sourcing rules, investment structures such as ETPs, and the application of parity principles across digital and traditional financial assets.

This report focuses on tax treatment of staking rewards— a critical function that secures proof-of-stake blockchain networks and underpins ecosystems holding billions of dollars in value for U.S. firms and investors. It explains how staking works, what staking rewards are, identifies the core tax issues at stake, and grounds that analysis in CCI's established policy positions to support deliberation on the package of bills under consideration.

A technology-neutral approach is critical to supporting innovation and domestic industry expansion. Staking is a novel activity. While it shares strong corollaries with existing activities governed by the tax code, the novelty of staking as an activity and its economic importance requires some reconciliation of the existing rules.



02

What Staking is, and How Staking Works

What Staking is, and How Staking Works

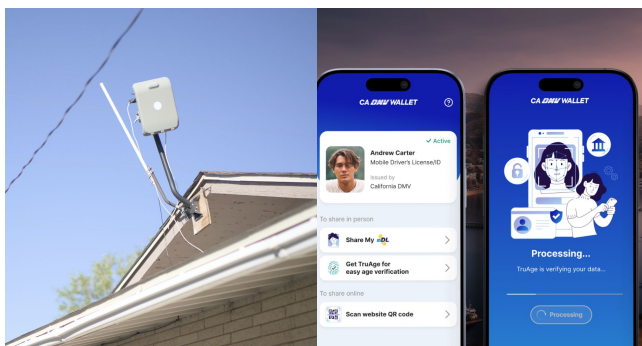
Staking Is Critical Infrastructure

Proof-of-Stake (PoS) is an increasingly popular form of blockchain consensus mechanism due to its efficiency and security. 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.

Staking rewards are not payments made by a counterparty. They are newly created tokens of a blockchain network's own token, created by the protocol and assigned by the consensus algorithm to validators in return for verifiable work securing the network.

No issuer, intermediary, or other person selects the recipient, negotiates the amount, or exercises discretion over whether the distribution occurs. The issuance schedule is encoded in publicly available source code, is accessible on a permissionless basis, and can be altered only through the network's own governance processes.

As of publication of this report, over \$386 billion of value is secured by staking on proof-of-stake networks, with approximately \$70 billion in assets directly staked.³



Use cases supported by staking: Left, a Helium "Hotspot" installed on a customer's roof providing coverage for a low-cost decentralized mobile network; Right, SpruceID's California DMV digital identity card program that serves 3.5 million Californians.

Top networks include:

- Ethereum (ETH): Over \$50B TVL, driven by liquid staking and DeFi.
- Solana (SOL): \$6.7B TVL, driven by high volume of both financial and non-financial transactions and DeFi activity.
- Base: \$1.5B TVL, driven by integration with the Coinbase ecosystem as a consumer adoption "super app."

This represents a significant expansion since Ethereum (the largest proof-of-stake network by volume) first transitioned from proof-of-work to proof-of-stake in 2022.⁴ Demonstrating the rapid expansion of the market, one major retail staking provider, Coinbase, reported that retail staked assets on the platform grew in value by 62% from 2023 to 2024 alone.⁵

The use cases that staking secures on proof-of-stake networks continues to grow.

New networks are now increasingly built for specific applications such as stablecoins, fintech infrastructure, and data availability — as well as non-financial use cases such as digital identity, supply chain management, and physical infrastructure management for telecommunications and decentralized computing. For example⁶:

- USDC, issued by Circle, is the world's largest regulated stablecoin, redeemable for U.S. dollars and fully backed by cash and short-term U.S. Treasuries. It has a current circulation of approximately \$74 billion as of mid-2026. USDC settles cross-border transfers in seconds rather than days, as compared with a global remittance market where the average transfer still costs more than 6%.⁷ It is also increasingly used to facilitate mainstream payments: Visa and Mastercard now settle transactions in USDC

and businesses, payment processors, and merchants use it for supplier payments and payouts.

- BUIDL is BlackRock's tokenized money-market fund, and the largest tokenized Treasury fund in the world at roughly \$2.5 billion, giving institutions an on-chain, yield-bearing alternative to idle stablecoin balances. BUIDL is now used across digital-asset markets as trading, DeFi, and off-exchange collateral within a tokenized real-world-asset market that surpassed \$30 billion globally in 2026.
- SpruceID, which operates primarily on Ethereum, has launched digital identity pilots with the California Department of Motor Vehicles, the Utah Department of Government Operations, and the federal Department of Homeland Security.
- Helium Mobile, a blockchain powered decentralized telecommunications company that operates on Solana, is rapidly emerging as a significant disruptor in the US telecommunications industry, serving over 2 million average daily users as of Q4 2025 and partnering with major carriers like T-Mobile and AT&T.

But as staking activity grows, current tax treatment that determines whether assets remain committed to network security could jeopardize the future security and operability of such use cases. For example, until the IRS issued Revenue Procedure 2025-31 in November 2025, U.S. spot ether exchange-traded products held billions of dollars of ETH without staking any of it, because regulatory and tax uncertainty over grantor trust classification made staking too risky.⁸ That guidance resolved the question for a single class of vehicle: exchange-listed, single-asset trusts satisfying fourteen conditions. Individuals, operating companies, and pooled funds fall outside it, and the revenue procedure does not address whether staking income is effectively connected income or unrelated business taxable income — questions that continue to deter

tax-exempt and non-U.S. participation.⁹

Within the safe harbor, tax classification risk still dictates product design: BlackRock's iShares Staked Ethereum Trust discloses that it will stake only to the extent the sponsor determines it can do so without jeopardizing grantor trust qualification,¹⁰ and Grayscale amended its trust agreement in 2026 to require quarterly conversion of staking rewards to cash, expressly to align with the revenue procedure.¹¹ The result is a narrow accommodation, granted by sub-regulatory guidance the agency may modify or withdraw, under which the amount of stake securing these networks is set by tax classification risk rather than network economics.

Proof-Of-Stake Networks

In proof-of-stake networks, tokenholders are able to participate in the security and maintenance of the network by staking their tokens for a chance to verify transactions and add blocks to the blockchain. In return for this participation in critical network activities, these participants create, and are rewarded with, new network-native tokens issued programmatically by the network itself.¹²

Proof-of-stake networks are blockchains in which network participants contribute value (or “stake” value) in the form of the network’s native digital assets to help secure the network and validate transactions.¹³ In proof-of-work networks such as Bitcoin, participants contribute resources in the form of computation power to validate transactions. In proof-of-stake networks, participants must stake the network’s crypto asset to be selected programmatically by the network’s underlying software protocol to validate new blocks of data and update the state of the network.¹⁴ Contributed or “staked” assets are often required to be locked up for a specified period (as defined by protocol rules), to support validation and network stability; while staked, asset ownership does not change.

Participants called “Validators” run software responsible for checking transactions and helping maintain the blockchain, and are selected to confirm transactions and record them on the network’s immutable ledger. Each Proof-of-Stake network’s underlying software protocol contains the rules for operating and maintaining the network, including the method of selecting Validators. Once added and finalized, these records are designed to be permanent and cannot ordinarily be changed or deleted.

Participants typically engage via the following methods:

- Operate their own validator nodes and engage in "solo staking" (this requires technical expertise and meeting protocol-specific requirements, making it rare¹⁵).
- Delegate assets to staking-as-a-service providers who handle technical operations for a fee. Providers can serve both institutional clients and retail investors.
- Stake assets through a decentralized liquid staking protocol or staking-as-a-service service provider.

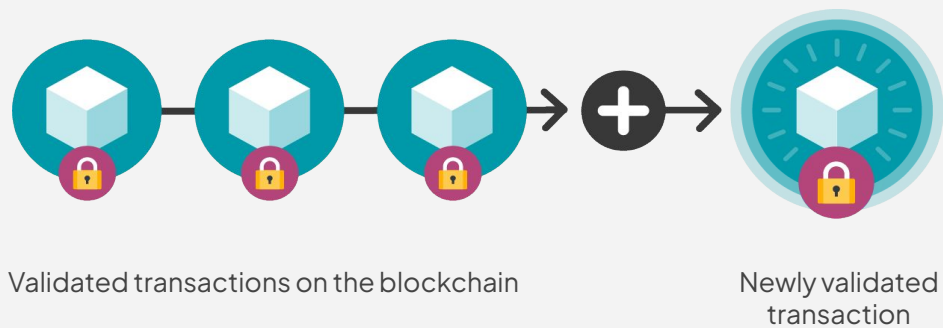
Enhanced Stability And Security

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. Conversely, protocols enforce honest behavior through “slashing” — the forfeiture of some or all of a validator's staked tokens for validating invalid blocks, double signing, or failing to meet the protocol's technical requirements — so that dishonest validation carries a direct and automatic economic cost.

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% or more).¹⁶ 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.



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

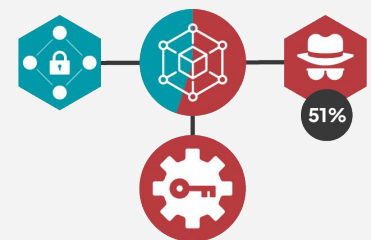


Diagram: Crypto Council for Innovation

How Staking Works

The process of Proof-of-Stake validation includes two key types of actors – Validators and Stakers. These actors perform separate functions in the

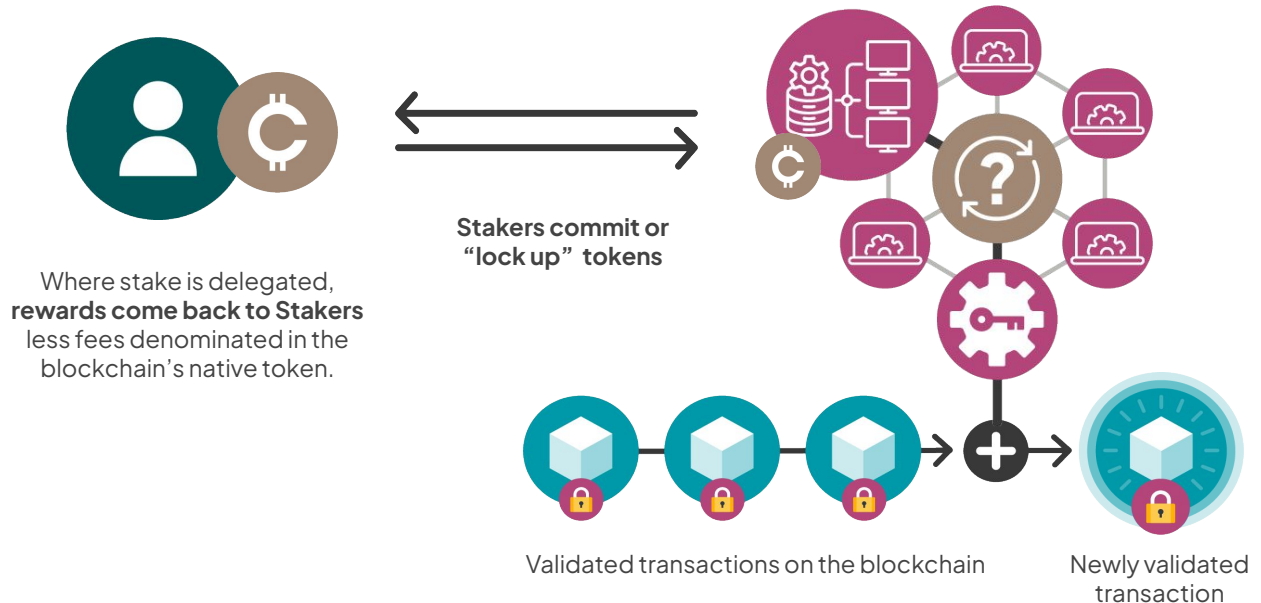
staking process that should be considered separately from a tax lens.

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.)

Diagram: Crypto Council for Innovation



03

What Staking and Staking Rewards are Not

What Staking and Staking Rewards are Not

Misclassifying staking rewards under existing tax frameworks distorts policy outcomes. The tax code should not be built on analogies that don't hold.

1. Staking rewards are not bank interest.

Bank interest arises from a bilateral contractual relationship: a depositor transfers funds, and a known counterparty pays a deterministic return on a predictable schedule, with immediate liquidity. Staking rewards are newly created tokens issued by a protocol as an incentive for validating transactions and securing a decentralized network. No one borrows the staker's capital; there is no obligor, no agreed rate, and no guaranteed liquidity. Treating these as equivalent is a category error.¹⁷

2. Staking rewards are not stablecoin rewards.

Stablecoin rewards are payments or distributions a digital asset company may offer users to incentivize them for using payment stablecoins to engage in certain activities or use new products or services on their platforms, similar to credit card rewards or cash discounts. In contrast, staking rewards are a form of infrastructure provision: newly created native tokens issued by a protocol for participants in consensus functions that keep a proof-of-stake network live and secure.

3. Staking rewards for tax-exempt investors in delegated staking arrangements are not UBTI by default.

Tax-exempt investors — pension funds, endowments, foundations — are subject to rules that tax income that is deemed to be unrelated to a tax-exempt's exempt purpose (known as unrelated business taxable income, or "UBTI"). These were designed to tax income from active trade or business activities, not investment returns. Earning periodic rewards from staking, particularly in delegated staking arrangements, is economically comparable to investment income that is already excluded from UBTI for tax-exempt investors in traditional markets. Absent legislative clarity, uncertainty around this issue is directly limiting capital formation in U.S. digital asset markets.

4. Staking infrastructure is not analogous to cloud service infrastructure.

Without clear statutory rules, tax advisors may take varying positions based on facts and circumstances, such as determining the source of staking income based on the physical location of the validator node — the same approach used for cloud computing infrastructure. This interpretation could trigger 30% withholding on foreign investors using U.S.-based validators, placing U.S. staking infrastructure at a severe competitive disadvantage. Income sourcing for staking should follow the residence of the recipient.



04

Staking Tax Considerations

Tax Principles

Tax policy should be technologically neutral, clear, and administrable. It should increase taxpayer compliance without imposing unnecessary complexity or novel obligations simply because a technology is new or discouraging the very activities that secure and support emerging financial infrastructure.

The lack of clarity today has real consequences: it limits market expansion; encourages inconsistent reporting; pushes businesses and developers toward jurisdictions that provide clearer rules; and cedes to other jurisdictions the decisions about where the next generation of financial infrastructure is built and who sets its standards.

Fortunately, fixing this does not require rewriting the tax code. The foundational principles already exist — they simply need to be applied accurately and updated to reflect how digital assets actually function in practice.

Modernizing crypto tax policy is about administrability and ensuring that the next generation of financial infrastructure is built, secured, and taxed in the United States.

Tax legislation should be grounded in the following principles:

Parity

Tax policy should not impose punitive or inconsistent treatment on digital assets simply because the technology is newer. Digital asset transactions that are economically equivalent to traditional financial transactions should be subject to equivalent tax treatment. Tax treatment should track the economic substance of an activity, not the technology used to carry it out.

Fostering Innovation

The tax framework should preserve and encourage continued innovation in blockchain technologies and the development of decentralized protocols.

Preserving Core Infrastructure

Activities essential to securing and maintaining blockchain networks, such as staking and mining, should not be discouraged by overly complex or burdensome tax treatment.

Use Case Enablement

Tax policy should not create disincentives for key applications, including the use of digital assets for payments and remittances.

Global Competitiveness

Tax policy should foster U.S. leadership in digital assets and reflect the strategic importance of this technology to the future of global commerce.

Timing

Staking and Created Property

Staking's function is to provide critical infrastructure: participants lock up tokens to secure the network and, in return, are credited newly created reward tokens.

The value of those rewards is not realized at the moment of creation — while they are locked up, illiquid, or simply held — but only when they are later transacted or sold. Taxing rewards at creation imposes a liability before any economic gain is recognized, discouraging the very participation that secures networks.

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.

Assessing the Current Landscape

Recognizing that the value of staking rewards is not realized at the moment of creation is not a special carve-out for digital assets. It applies two approaches in the existing tax code to how value is realized: self-created property is taxed on sale, and property received in connection with services can be converted to capital treatment.

Staking is a novel activity that sits between these two approaches. Staking rewards are paid in newly created, network-native digital assets that are programmatically distributed by the network's protocol in return for participation in critical network activities.

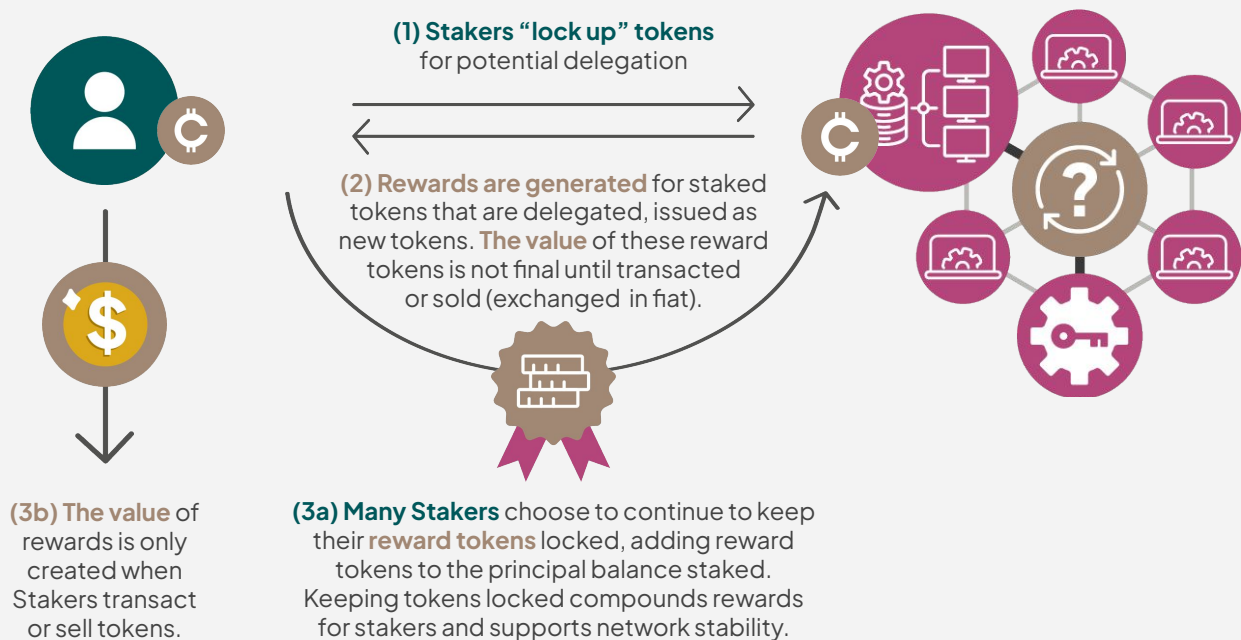


Diagram: Crypto Council for Innovation

Crediting staking rewards at a zero basis, with gain recognized at disposition and taxed as capital gain, better adapts these approaches to its novel activity.

- **Self-created property is taxed at sale, not creation.** A gold miner owes no tax when ore leaves the ground; the metal is held as inventory, and income is recognized only on sale, as proceeds less the cost of goods sold (IRC §471). The same approach to timing governs the farmer who grows a crop and the manufacturer who builds inventory. Current IRS guidance departs from this principle for digitally produced property, requiring immediate recognition of ordinary-income on block rewards at receipt. Newly mined and staked tokens are newly-created property of the same timing character; taxing them differently is a technology-specific disparity that legislation should address.

However, this analogy establishes a timing rule but not the character of the gain; staking rewards are not entirely analogous to inventory and instead represent a capital asset. A staker receives rewards as an incident of committing capital to the network and, in the typical case, continues to hold them. Property held for investment rather than for sale in the ordinary course of a business is a capital asset.

- **Property received for validation services need not yield ordinary income on post-receipt appreciation.** Under 26 U.S.C. §83(b), a person who receives property for services may elect to take the value into income when first received, thus fixing their basis at the outset, so that all subsequent appreciation is taxed as capital gain on sale rather than as ordinary income, with the holding period running from acquisition. That principle applies to staking rewards regardless of how the initial receipt is characterized, because the ultimate value realized at disposition derives from the network and the market rather than from any labor of the recipient.

However, what does not translate is the mechanism: a § 83(b) election requires the

recipient to take the property's value into ordinary income immediately. The services-property rule requires an immediate inclusion that staking rewards are poorly suited to bear.

The current Rev. Rul. 2023-14 requires a validator to include the fair market value of newly issued tokens in ordinary income at the moment of "dominion and control." If tokens are not transferable, remain locked, or are subject to slashing, true dominion and control is not achieved at mere receipt. The result is a tax obligation denominated in dollars against an asset the taxpayer cannot yet sell, at a valuation that the taxpayer cannot lock in.

Any legislative approach should consider these discrepancies and advance a realization-based treatment.

Legislative proposals that construct a deferral mechanism with a forced realization event after a fixed period, such as the Horsford Amendment to H.R. 9175, are also not aligned with the reality of staking activity. A deferral-based approach:

- **Does not align taxation with economic realization.** It creates a forced realization event at a fixed period and imposes a tax event without a corresponding sale.
- **Creates new complexity without solving the underlying problem.** A five-year clock requires taxpayers and advisors to track deferral periods across potentially thousands of reward events, introducing significant administrative burden for taxpayers and the Internal Revenue Service alike.

The introduced Tax Clarity for Mining and Staking Act (TCSMSA) (H.R. 9175) addresses some of these concerns, while offering some improvements. While H.R. 9175 treats the default position as the recognition of rewards as ordinary income at time of creation, it does offer improvements that recognize staking's novel qualities by creating an election. Mark-up should advance H.R. 9175 which would allow for a disposition triggered recognition event.

Case Studies on Tax Treatments from Other Jurisdictions

Three of the most competitive jurisdictions for staking— the UAE, Singapore, and Hong Kong — currently offer greater benefits for staking operations on the structural basis of their existing tax codes.

None has staking-specific guidance, but their general frameworks (zero or near-zero tax on personal investment income for individuals holding as investment, no capital gains tax, and, in Hong Kong, regulatory authorization of staking services) are structurally favorable in a way U.S. law is not.¹⁸

Across the UK and Europe, the dominant approach remains a more punitive receipt-based treatment: rewards are taxed as income at creation, before they are liquid or marketable, with a second capital gains layer on disposal.¹⁹

This double-layered structure — which the U.S. mirrors under Rev. Rul. 2023-14 — imposes a real tax liability before any economic gain is realized, discouraging the very network participation these jurisdictions nominally seek to support.

However, some European jurisdictions are moving toward policy that specifically addresses taxation of staking, furthering competition with U.S. based activity.

Germany's Federal Ministry of Finance issued staking-specific guidance in 2022 and rejected a proposal to extend the holding period on staked assets to ten years — a signal against penalizing long-term participation.²⁰ Austria is the clearest example: under §27b of the Income Tax Act, enacted in the 2022 Eco-Social Tax Reform, staking rewards are specifically addressed and excluded from current income, credited at a zero cost basis, and taxed only on disposal — the framework CCI urges Congress to adopt.²¹

Sourcing

Locating Infrastructure

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 integrate into the network. This means that international firms may wish to invest in U.S. infrastructure and talent.

Assessing the Current Landscape

Staking rewards should be sourced based on the tax residence of the recipient — not based on the physical location of validator infrastructure.

For non-U.S. persons, staking rewards should be treated as foreign-source income, removing the withholding exposure that currently penalizes U.S.-based staking operations and placing them on equal footing with foreign competitors.

The current U.S. framework contains no statutory sourcing rule for staking income. In the absence of express guidance, tax advisors apply general

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

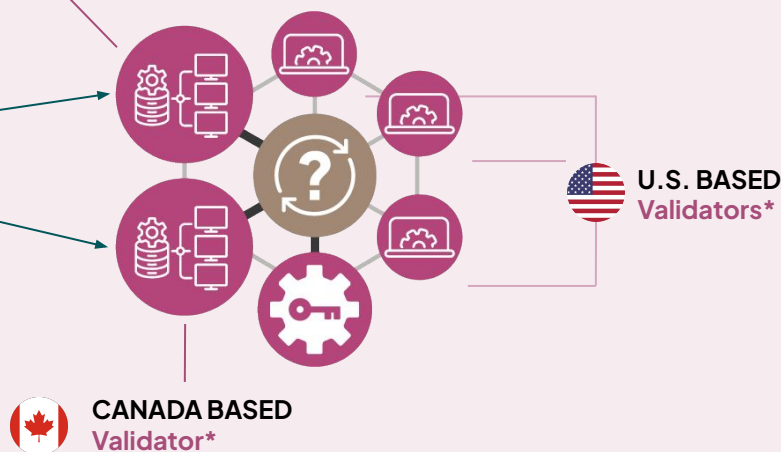


Stakers may be based in a different jurisdiction, as in this example.

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.*

EU BASED Validator*



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.

Diagram: Crypto Council for Innovation

principles that treat staking income as sourced to wherever the validator infrastructure is physically located — analogous to the treatment of cloud computing infrastructure. Under this default, U.S.-based validator nodes and staking service providers may be required to impose 30% withholding tax on foreign investors whose assets are staked through U.S. infrastructure, placing them at a direct competitive disadvantage relative to foreign counterparts operating outside U.S. jurisdiction.²²

Separately, the absence of a rule clarifying whether staking is a U.S. trade or business creates effectively connected income (ECI) exposure for foreign investors under §864. Where a taxpayer delegates to a service provider — the arrangement covering the large majority of retail and institutional stake — the taxpayer's involvement is limited to committing capital.²³ Even a validator operating its own infrastructure is engaged in securing its own investment position, not providing services to customers. A statutory rule confirming that passive, protocol-level staking is not a trade or business would align tax treatment with that economic substance.

Together, these two uncertainties — sourcing and trade-or-business status — create exposure that institutions manage by locating activity outside the United States. The practical consequence is well-documented: institutional staking clients increasingly require contractual assurances that their validators are not hosted in the United States, and staking operations that could be domiciled domestically are being established offshore in direct response to this uncertainty. A majority of validators on the largest proof-of-stake networks now operate offshore, carrying associated infrastructure, talent, and investment with them (see next chapter for discussion of offshoring including statistics on validator locations for the top ten proof-of-stake networks).

Any reconciled legislation should incorporate a sourcing framework as a key element of a complete staking tax package, and clarify

whether staking constitutes a U.S. trade or business under §864 to provide certainty and close the residual foreign-source-ECI gap. H.R. 9175 (Tax Clarity for Mining and Staking Act) addresses sourcing directly, by amending §863 to source validation income based on the residence of the recipient (U.S.-sourced for U.S. residents, foreign-sourced for nonresidents), with special rules for foreign branches of U.S. persons and U.S. branches of foreign persons.

On the trade-or-business question, a previous legislative proposal (the Parity Act, May 2026²⁴) was more comprehensive: its new §7701(p) provided that passive, protocol-level staking does not constitute a trade or business, expressly for purposes of §512 and §864 — directly addressing the ECI and Unrelated Business Taxable Income (UBTI) exposure that drives infrastructure offshore.

Any reconciled bill should advance these respective approaches, in order to:

- **Resolve the competitive disadvantage at its source.** By tying sourcing to recipient tax residence rather than infrastructure location, H.R. 9175 eliminates the withholding exposure that has driven foreign investors to demand non-U.S. validator infrastructure, placing U.S. staking nodes on a level playing field with foreign counterparts.
- **Align staking with standard treatment of financial income.** Sourcing income to the tax residence of the recipient is consistent with how most financial instrument income is treated under U.S. tax law, and applies established principles rather than novel ones.
- **Provide the certainty needed to reverse capital flight.** Institutional participants are making infrastructure and talent location decisions now, and have already made significant investments in other jurisdictions due to uncertainty. Clear statutory rules — not administrative guidance — is necessary to credibly change the calculus for where validators, staking desks, and related infrastructure are built.

A complete package should also address two matters the trade-or-business rule alone does not fully resolve: UBTI for tax-exempt investors and the classification of digital asset investment vehicles, and refining the passive-staking rule itself. CCI supports provisions that would address:

- **UBTI for tax-exempt investors.** Because §7701(p) removes UBTI exposure only where staking is passive, a reconciled bill should also expand the §512(b) investment-income carveout to explicitly include staking rewards — reaching institutional and more actively managed stakers, providing affirmative certainty, and ensuring that the carveout cover periodic income from digital assets, consistent with the treatment of comparable investment income under current law.
- **Digital asset investment vehicles.** As a matter of entity classification rather than UBTI, confirm that an investment trust's powers to stake, manage liquidity, and adapt to supporting technology do not jeopardize its trust status, a clarification of particular importance to ETF and ETP sponsors, and update the "qualifying income" exception to the publicly traded partnership rules (§7704) to include staking income.
- **Scope of the passive-staking rule.** Broaden the definition of "passive validator," so that staking operators bearing ordinary infrastructure, software, or staffing costs are not excluded from its protection.

Managing Risk

CCI's membership represents key industry leaders, whose experiences represent industry-wide trends. 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.



Many of our customers, both U.S. and non-US, from all different business lines (asset managers, custodians, exchanges, VCs, etcetera) 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 U.S.

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



05

Implications of Sourcing for National Security & Economic Competitiveness

Implications of Sourcing for National Security & Economic Competitiveness

Offshoring Critical Infrastructure

Validator infrastructure is the physical foundation of proof-of-stake networks — the hardware, talent, and operational expertise that keeps these networks live and secure. Where that infrastructure is located has direct consequences for both U.S. national security and American economic competitiveness.

Institutional investors mitigate risk from U.S. withholding and/or ECI exposure the same way —

by requiring that validators be located outside the United States. Under current ambiguity, the U.S. exposes non-U.S. participants to U.S. withholding even if they have no other U.S. exposure. The market reflects this: a majority of validators on the largest proof-of-stake networks now operate offshore, carrying infrastructure, talent, and investment with them. Some of the largest chains that publicly report network data have a majority of validators offshore (see table below).

Top 10 Proof-of-Stake Networks by Volume²⁵

Network	Active Validators	Estimated US Share (by node count or stake)
Ethereum	1.2MM+ validator keys (about 5,000–6,000 distinct node operators)	~29% of nodes (Europe is dominant in aggregate)
Solana	~3,250 active validators (~5,050 total nodes)	~29% of nodes in U.S. (Europe is dominant in aggregate)
TRON	~7,700 nodes; 27 active Super Representatives	~22% of nodes in U.S.
Cardano	~2,900 active stake pools	~25–30% estimated nodes within the US
Hyperliquid	24 validators (active); addition 6 inactive	0% active validators in U.S.; all 24 active validators are all clustered in the Tokyo region
Avalanche	~675 active validators	~24% of stake held by U.S.-based validators
Sui	~127 active validators	~26% validators are located in the U.S.
Aptos	~107 active validators	~14% validators are located in the U.S.
Toncoin	~400 active validators per election round	13% of validators located in the U.S.
Hedera	~36 consensus nodes; target is 39	~19% validators are located in the U.S.

National Security

When validator infrastructure concentrates in a jurisdiction outside of the United States, the United States loses both visibility into and influence over the networks underpinning the digital financial system. Academic research identifies this risk explicitly: researchers found that geospatial centralization makes blockchains vulnerable to regulatory control by governments in dominant validator jurisdictions, including the ability to censor transactions or comply with foreign sanctions in ways that affect network-wide behavior.²⁶ The converse is equally concerning — if adversarial or non-allied nations host a significant share of validators on networks used by U.S. institutions and individuals, those nations gain structural leverage over critical financial infrastructure.

The Senate Committee on Armed Services has already recognized this dynamic in the defense context. The report accompanying the FY2025 National Defense Authorization Act directed the Secretary of Defense to investigate blockchain applications for national security, noting that the technology has the potential to "enhance the cryptographic integrity of the defense supply chain and reduce the risk of data manipulation by near-peer competitors."²⁷ Onshoring validator infrastructure advances the same objective in the civilian financial system.

Innovation and Economic Competitiveness

The location of validator operations is directly supportive of strengthening U.S. innovation, economic development, and international leadership in the future of digital finance. When unclear tax treatment drives validator infrastructure offshore, the United States does not merely lose tax revenue; it also exports:

- **Engineering talent and jobs.** Validator infrastructure requires skilled technical labor — precisely the expertise that the U.S. should be retaining as it seeks to become a global leader in advanced computing. The U.S. data center industry directly employed more than 1 million workers and supported 5.5 million total jobs in

2024, with labor income growing 11% year-over-year.²⁸ McKinsey projects \$6.7 trillion in global data center investment will be required by 2030 to meet AI-driven demand — a buildout that depends on sustained, skilled operational workforces at every node.²⁹ U.S. staking providers are already losing ground here: major staking-as-a-service providers report that institutional clients are contractually requiring non-U.S. validator locations to mitigate U.S. withholding and/or ECI exposure, driving significant infrastructure investment — and the associated jobs — to other jurisdictions. CCI's member companies have reported creating hundreds of new jobs in other jurisdictions as a result of these dynamics.³⁰

- **Data center investment and capital expenditure.** Validator nodes share physical infrastructure requirements with the broader data center buildout — power, connectivity, cooling, and physical security. That buildout is enormous and heavily concentrated in the United States: the United States hosts 51% of current live global data center IT capacity and 72% of capacity currently under construction.³¹ Goldman Sachs projects hyperscalers will spend more than \$5 trillion on technology and data centers by 2030.³² Driving validator operations offshore doesn't just relocate a server rack — it redirects capital investment and facility construction to other jurisdictions at precisely the moment the U.S. is competing most aggressively to lead global digital infrastructure.
- **Institutional knowledge and next-generation financial infrastructure.** The competitive landscape for blockchain infrastructure is not static. As other jurisdictions create more clarity for builders and customers alike and technical expertise and protocol relationships accumulate in those jurisdictions over time, the U.S. position erodes structurally. The U.S. share of global crypto developers has already fallen 51% over the past decade,³³ and all of the top 10 proof-of-stake chains have over 70% of validators outside of the United States — trends that will accelerate if tax policy continues to make foreign domiciles the economically rational choice.



06

Conclusion: CCI's Positions on Staking Tax

Conclusion: CCI's Positions on Staking Tax

There has been meaningful legislative progress on staking tax issues that have long distorted U.S. market behavior and driven infrastructure offshore. **Getting core tax provisions right is essential to securing U.S. competitiveness in digital finance, protecting institutional and retail staking participation, and delivering the compliance simplicity that taxpayers need.**

Timing of Income Recognition

Staking and mining rewards should be treated as newly created property (zero basis at creation), taxed only upon sale or disposition. This would eliminate tax obligations denominated in dollars against assets the taxpayer cannot yet sell, at a valuation that the taxpayer cannot lock in, while reducing compliance complexity.

Any bill should:

- Tax rewards as capital gains, not ordinary income.
- Allow the option to defer income inclusion until disposition, with no fixed deferral period (e.g., advance H.R. 9175's disposition-triggered election without the Horsford Amendment's proposed five-year cap).
- Consider that reward creation or issuance does not represent "dominion and control," and this framing may create unintended interpretive issues about timing and the nature of the taxable event.
- Ensure that the definition of "newly minted digital asset" does not conflate validators and stakers in a way that could exclude the majority of delegated staking arrangements — which represent most retail and institutional activity — from coverage entirely.

Sourcing Rules

Staking rewards should be sourced based on the tax residence of the recipient — not based on the physical location of validator infrastructure or other easily manipulable factors. For non-U.S. persons, staking rewards should be treated as foreign-source income, removing the U.S. withholding risk that currently disadvantages the competitiveness of U.S.-based staking operations and placing them on equal footing with foreign competitors. H.R. 9175 (Tax Clarity for Mining and Staking Act) provides important new clarity on issues of staking sourcing and tax treatment.

Any reconciled bill should:

- Include a sourcing framework that amends §863 to source validation income based on the residence of the recipient — U.S.-sourced for U.S. residents, foreign-sourced for non-U.S. residents.
- Directly address the competitive disadvantage created by the current default, under which the U.S. exposes non-U.S. participants to U.S. withholding even if they have no other U.S. exposure, potentially triggering 30% withholding on foreign investors using U.S.-based validators.

Passive Staking, ECI, and UBTI

Passive, protocol-level staking should not constitute a trade or business. This follows from the nature of the reward: protocol-issued property received for committing capital to the network, not compensation for services rendered to a counterparty.

A previous legislative proposal (the PARITY Act's

new §7701(p)(1)) explicitly provided that passive staking does not constitute a trade or business for purposes of §§512 and 864.³⁴ This directly addresses both the UBTI exposure for tax-exempt investors and the ECI exposure for foreign stakers using U.S.-based staking providers and validators. H.R. 9175 addresses the narrower question of trust status preservation but does not resolve the trade-or-business characterization issue for the broader market.

Any reconciled bill should:

- Directly address both the UBTI exposure for tax-exempt investors and the ECI exposure for foreign stakers using U.S.-based validators — the two issues that have most directly driven staking infrastructure offshore.

Digital Asset Investment Structures (ETPs and Investment Trusts)

CCI supports the broadest, most comprehensive coverage in any reconciled bill. Updates to grantor

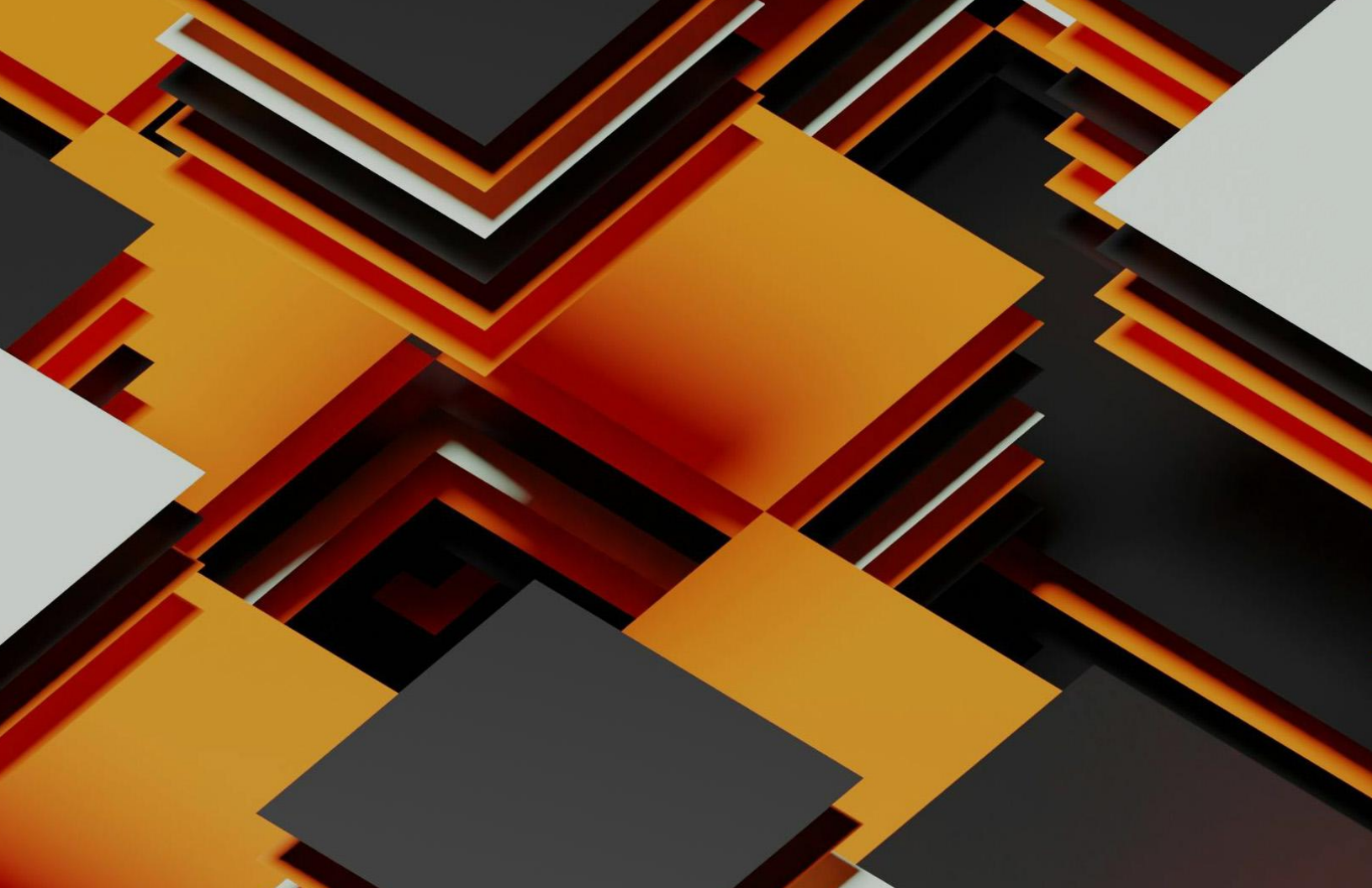
trust rules should expressly permit staking activities within a grantor trust, while updates to the "qualifying income" exception to the publicly traded partnership rules should clearly include staking income.³⁵

Previous legislative proposals explicitly provided that trustee powers to stake trust assets, manage liquidity, and adapt technologically do not constitute powers to vary investment — covering the full range of actions a trustee would need to take to stake within an investment trust vehicle. The proposed H.R. 9175 takes a narrower approach: it clarifies that a trust does not lose trust status solely because the trustee can stake, select assets to stake, manage liquidity related to staking commitments, or retain and distribute rewards.

Any reconciled bill should:

- Create clarity and access for ETF and ETP sponsors to stake within investment trust vehicles, building on, but going beyond, the safe harbor established by IRS Revenue Procedure 2025–31.
- Expand the "qualifying income" exception to the publicly traded partnership rules to include staking income.

To learn more about CCI's research and policy work on digital asset tax issues, please contact **Alison Mangiero** at alison@cryptocouncil.org



Appendix

Footnotes

1. For developer trends, see Crypto Developer Geography Trends, Developer Report, Electric Capital, <https://www.developerreport.com/geography>. Regarding trends on staking-as-a-service providers and institutional staking clients, CCI surveyed its membership, which includes industry leaders in staking serving millions of customers; due to the sensitivity of the topic, members declined to be identified.
2. See the Committee on Ways and Means Hearing announcement for the collection of bills under consideration: *Full Committee Legislative Hearing on Digital Asset Taxation*, Committee on Ways and Means, United States House of Representatives (June 9, 2026), <https://waysandmeans.house.gov/event/full-committee-legislative-hearing-on-digital-asset-taxation/>; and *Digital Asset Protection, Accountability, Regulation, Innovation, Taxation, and Yields Act (Digital Asset Parity Act)*, H.R. 8899, 119th Congress (2026), <https://www.congress.gov/bill/119th-congress/house-bill/8899/text>
3. Value as of September 11, 2026. *Top Blockchains by Total Value Locked (TVL)*, CoinGecko, <https://www.coingecko.com/en/chains>; and *Top Proof of Stake (PoS) Coins by Market Cap*, CoinGecko, <https://www.coingecko.com/en/categories/proof-of-stake-pos>.
4. *The Next Chapter for Crypto: 2025 Review & 2026 Outlook*, Everstake (December 15, 2025) <https://everstake.one/resources/blog/the-next-chapter-for-crypto-market-analysis-of-2025-and-expectations-for-2026>. Note that \$700 billion refers to the approximate value of the top 35 proof-of-stake networks; the total value inclusive of smaller proof-of-stake networks is likely larger.
5. See 'Staking' (approximately \$9.4 billion staked on behalf of individual consumers as of Dec. 31, 2023 and approximately \$15.2 billion as of Dec. 31, 2024); UNITED STATES SECURITIES AND EXCHANGE COMMISSION FORM 10-K: Coinbase Global, Inc. for the Fiscal Year Ended December 31, 2023, Securities and Exchange Commission, <https://www.sec.gov/Archives/edgar/data/1679788/000167978824000022/coin-20231231.htm>; and UNITED STATES SECURITIES AND EXCHANGE COMMISSION FORM 10-K: Coinbase Global, Inc. for the Fiscal Year Ended December 31, 2024, Securities and Exchange Commission, <https://www.sec.gov/Archives/edgar/data/1679788/000167978825000022/coin-20241231.htm>.
6. *Stablecoin Payments: The Next Phase of Digital Commerce*, Circle (January 15, 2026), <https://www.circle.com/blog/stablecoin-payments-the-next-phase-of-digital-commerce>; BlackRock, *BlackRock Launches Its First Tokenized Fund, BUIDL, on the Ethereum Network*, Business Wire (March 20, 2024), <https://www.businesswire.com/news/home/20240320771318/en/BlackRock-Launches-Its-First-Tokenized-Fund-BUIDL-on-the-Ethereum-Network>; Jeff John Roberts, *BlackRock's \$2.5 Billion Tokenized Money Market Fund Gets Boost with Binance Tie-Up*, Fortune (November 14, 2025), <https://finance.yahoo.com/news/blackrock-2-5-billion-tokenized-133000532.html>; Krisztian Sandor, *BlackRock Deepens Tokenization Push with New Onchain Fund Offerings*, CoinDesk (May 9, 2026) <https://www.coindesk.com/business/2026/05/09/blackrock-deepens-tokenization-push-with-new-onchain-fund-offerings>; Success Stories, SpruceID, <https://blog.spruceid.com/spruceid-partners-with-ca-dmv-on-mdl/>; Helium 2025: Year in Review, Medium (December 19, 2025) <https://blog.helium.com/2025-a622e55e4f6d>; and *The Real World: How DePIN Bridges Crypto Back to Physical Systems*, Grayscale (February 25, 2025) <https://research.grayscale.com/reports/the-real-world-how-depin-bridges-crypto-back-to-physical-systems>.

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7. *Transforming Cross-Border Payments with USDC*, Circle (August 7, 2024), <https://www.circle.com/blog/transforming-cross-border-payments-with-usdc>
8. *Revenue Procedure 2025-31, 2025-48 I.R.B.*, <https://www.irs.gov/pub/irs-drop/rp-25-31.pdf>; Ropes & Gray LLP, *IRS Issues Revenue Procedure 2025-31 – Safe Harbor for Trusts Staking Digital Assets* (November 2025), <https://www.ropesgray.com/en/insights/alerts/2025/11/irs-issues-rev-proc-2025-31-safe-harbor-for-trusts-staking-digital-assets> (noting that the nine-month amendment window would allow ETPs that had not previously staked, because of prior regulatory and tax uncertainty, to begin doing so).
9. *Revenue Procedure 2025-31, supra note 7, § 6.02*, regarding fourteen safe harbor requirements and declining to address whether staking income is effectively connected income or unrelated business taxable income.
10. *iShares Staked Ethereum Trust ETF*, Registration Statement Form S-1/A, (February 17, 2026), https://www.sec.gov/Archives/edgar/data/2099103/0001437749260004276/isset20260214_s1a.htm.
11. For a discussion of Grayscale’s amended Trust Agreement requiring quarterly conversion and distribution of staking consideration to align with Revenue Procedure 2025-31, see *Grayscale Ethereum Staking ETF, Current Report Form 8-K* (July 17, 2026), <https://www.sec.gov/Archives/edgar/data/1725210/000172521026000010/ethe-20260717.htm>.
12. This report and its recommendations refer to “newly created tokens” because they are the dominant type of staking rewards; as such, policy recommendations should be crafted around the dominant type to best accommodate the widest range of use cases.
13. This understanding aligns with recent guidance provided by the Securities and Exchange Commission (note that this guidance uses the term “digital commodities” to refer to a non-security subset of “digital assets”). See Securities and Exchange Commission & Commodity Futures Trading Commission, *Application of the Federal Securities Laws to Certain Types of Crypto Assets and Certain Transactions Involving Crypto Assets*, Release Nos. 33-11412; 34-105020; File No. S7-2026-09, effective March 23, 2026, available at <https://www.sec.gov/files/rules/interp/2026/33-11412.pdf>.
14. Securities and Exchange Commission Division of Corporation Finance, *Statement on Certain Protocol Staking Activities*, Securities and Exchange Commission (May 29, 2025), <https://www.sec.gov/newsroom/speeches-statements/statement-certain-protocol-staking-activities-052925>
15. For example, on the Ethereum network, an estimated 5.4% and 7.2% of validators are solo stakers according to recent analysis. See EthStaker GitHub (community repo), *solo-stakers*, available at <https://github.com/ethstaker/solo-stakers>.
16. Recent research shows that blockchain safety and resilience can be improved beyond 51% if clients in a system can communicate reliably (that is in particular, if clients can forward messages they receive to each other, which is the case for many blockchains that use gossip-style peer-to-peer networking), with the threshold dependent on design decisions: Joachim Neu, Srivatsan Sridhar & Ertem Nusret Tas, *Beyond 51% Attacks: Precisely Characterizing Blockchain Achievable Resilience*, a16z Crypto, February 27, 2025, available at <https://a16zcrypto.com/posts/article/beyond-51-attacks>.
17. Alison Mangiero, *ABA Gets Staking Wrong: Staking Rewards Aren’t Bank Interest, and the Tax Code Shouldn’t Pretend They Are*, Crypto Council for Innovation (June 10, 2026), <https://cryptoforinnovation.org/aba-gets-staking-wrong-staking-rewards-arent-bank-interest-and-the-tax-code-shouldnt-pretend-they-are/>

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18. See PwC, *United Arab Emirates: Overview*, Worldwide Tax Summaries, <https://taxsummaries.pwc.com/ united-arab-emirates>; Inland Revenue Authority of Singapore, *Taxable & Non-Taxable Income*, IRAS, <https://www.iras.gov.sg/taxes/corporate-income-tax/income-deductions-for-companies/taxable-non-taxable-income>; Gwenda Ho, Peter Brewin & Tommy Hui, *IRD Issues Guidance on Cryptocurrency Taxation*, A Plus (Apr. 2020), <https://aplus.hkicpa.org.hk/ird-issues-guidance-on-cryptocurrency-taxation/>
19. See HM Revenue & Customs, *CRYPTO21200 – Cryptoassets for Individuals: Income Tax: Staking*, GOV.UK (updated Nov. 28, 2025), <https://www.gov.uk/hmrc-internal-manuals/cryptoassets-manual/crypto21200>;
20. WINHELLER, *Taxation of Staking and Block Rewards in Germany*, <https://www.winheller.com/en/banking-finance-and-insurance-law/bitcoin-trading/bitcoin-and-tax/taxation-staking.html>
21. Austrian Fed. Ministry of Fin., *Tax Treatment of Cryptocurrencies*, Fed. Ministry Republic Austria Fin. (last updated Jan. 1, 2026), <https://www.bmf.gv.at/en/topics/taxation/Tax-treatment-of-crypto-assets.html>
22. 26 United States Code §-1441 (2024).
23. The timing analysis above does not bear on this question. That rewards are protocol-issued property, rather than payments from a counterparty, is consistent with the conclusion that holding staked assets and receiving rewards is an investment activity, not the conduct of a business.
24. *Digital Asset Protection, Accountability, Regulation, Innovation, Taxation, and Yields Act*, H.R. 8899, 119th Congress (2026), <https://www.congress.gov/bill/119th-congress/house-bill/8899/text>.
25. Data is as of publication of this report. Quantitative data where available reflects node count and/or staked weight by inferred geography, based on IP geolocation or ASN/hosting provider metadata. Data is presented for top ten PoS networks by volume. See: Ethernodes: <https://www.ethernodes.org/countries>; Solana Compass: <https://solanacompass.com/statistics/decentralization>; TronScan: <https://tronscan.org/#/blockchain/nodes>; PoolStats: poolstats.io; <https://pool.pm/>; Hyperliquid: <https://app.hyperliquid.xyz/staking/validatorPerformance>; CoinDesk: <https://www.coindesk.com/markets/2026/03/30/hyperliquid-traders-in-tokyo-get-200-millisecond-edge-glassnode-research-shows>; Avalanche: <https://subnets.avax.network/validators/dashboard/>; SuiVision: <https://suivision.xyz/validators>; Hashscan: <https://hashscan.io/mainnet/network/consensus-nodes>.
26. Naman Garg, Gengrui Zhang, Hans-Arno Jacobsen, Shashank Motepalli, *GPoS: Geospatially-aware Proof of Stake*, ACM Transactions on the Web, (November 3, 2025), <https://arxiv.org/pdf/2511.02034>
27. United States Senate Committee on Armed Services, *National Defense Authorization Act for Fiscal Year 2025: Report to Accompany S. 4638*, Senate Report No. 118–188, July 8, 2024, available at https://www.armed-services.senate.gov/imo/media/doc/fy25_ndaa_committee_report.pdf
28. *Data Center FAQs*, Data Ctr. Coal., <https://www.datacentercoalition.org/cpages/faq>
29. Jesse Noffsinger, Mark Patel & Pankaj Sachdeva, *The Cost of Compute: A \$7 Trillion Race to Scale Data Centers*, McKinsey & Co. (Apr. 28, 2025), <https://www.mckinsey.com/industries/technology-media-and-telecommunications/our-insights/the-cost-of-compute-a-7-trillion-dollar-race-to-scale-data-centers>

Footnotes

30. Due to sensitivities around business data and the current regulatory environment, CCI members who shared these conditions wish to remain anonymous.
31. Vandana Gombar, *US Data Center Builder Goes Off-Grid to Speed Deployments*, Bloomberg NEF (Feb. 27, 2026), <https://about.bnef.com/insights/data-centers/us-data-center-builder-goes-off-grid-to-speed-deployments/>
32. Hyperscalers are companies that provide massive cloud computing and data storage services by operating giant fleets of globally distributed data centers. Major examples include Amazon Web Services (AWS), Microsoft Azure, and Google Cloud. *Private Markets Are Expected to Have a Growing Role in Data Center Financing*, Goldman Sachs (June 12, 2026), <https://www.goldmansachs.com/insights/articles/private-markets-expected-to-have-growing-role-in-data-center-financing>
33. Electric Capital, *Crypto Developer Geography Trends*, Developer Report, <https://www.developerreport.com/geography>
34. “Passive staking” is not clearly defined in the current legislation draft.
35. For investment products structured as partnerships, clarification is needed on whether the “qualifying income” exception to the publicly traded partnership (“PTP”) includes staking income. The PTP rules under Sec. 7704 require certain partnerships to be taxed as corporations if interests in the partnership are, or are effectively equivalent to being, publicly traded. The “qualifying income” exception provides that partnerships with at least 90% qualifying income (generally, passive investment income) will not be taxed as corporations regardless of whether their interests are publicly traded. The definition of “qualifying income” under Sec. 7704(c) does not specifically address staking rewards or other income from digital assets.