

New IRS Guidance: Crypto Staking Rewards Are Includible in Income

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PRACTICES Tax

The IRS has released long-awaited guidance on cryptocurrency staking, amidst ongoing litigation over this issue, stating definitively that cryptocurrency tokens received as rewards for staking are includible in gross income in the tax year in which the taxpayer earns the rewards.

Under IRS Revenue Ruling 2023-14 (the “**Ruling**”), taxpayers using the cash method of accounting must include in their gross income the fair market value of any cryptocurrency received as a reward for validating transactions on a proof-of-stake consensus blockchain. Taxpayers who set aside, or “stake,” cryptocurrency, are chosen to validate a transaction on the blockchain. If they successfully complete the validation, they are rewarded with fractional amounts of the cryptocurrency native to the blockchain (“**Staking Rewards**”). This includes Staking Rewards received by taxpayers who staked their cryptocurrency through an exchange, although Staking Rewards are only includible in income at the time the taxpayer gains control and dominion over the issued tokens, not the exchange.

Previously, in Rev. Rul. 2014-21, the IRS ruled that mining income is includible in gross income. Staking, which was not as common in 2014, was not addressed in that ruling and this has led to significant uncertainty in crypto tax planning and compliance. The IRS recently issued a refund to a couple who sued for a return of the taxes they paid on their staking income (*Jarrett v. United States*, No. 22-6023 (6th Cir. 2023)). The IRS issued the Ruling just one week after oral arguments were heard in the case and that case is not applicable to any other taxpayers.

Taxpayers who are interested in staking cryptocurrency or who are invested in cryptocurrency-based funds should discuss the potential impact of this Ruling with a tax advisor. For more information on cryptocurrency taxation and a discussion on crypto staking income prior to Rev. Rul. 2023-14, please see our previous [Tax Break video](#).