

ADAPT ACT

Aligning Digital Assets with Principles of Taxation Act

SECTION-BY-SECTION

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The Aligning Digital Assets with Principles of Taxation Act (ADAPT Act) would modernize the Internal Revenue Code for digital assets. The bill removes tax friction that makes everyday use of regulated stablecoins and blockchain networks impractical, extends to digital assets long-standing rules already available for stocks, securities, and commodities, closes loopholes that let digital asset investors sidestep rules other investors must follow, and provides clear, workable rules for staking.

SEC. 1 SHORT TITLE; TABLE OF CONTENTS

Provides that the Act may be cited as the “Aligning Digital Assets with Principles of Taxation Act” or the “ADAPT Act,” and sets out the table of contents.

SEC. 2 EVERYDAY PAYMENTS WITH REGULATED STABLECOINS

CURRENT LAW. The IRS treats all digital assets, including dollar-pegged stablecoins, as property (Notice 2014-21). Every disposition is a realization event, so each purchase made with a stablecoin requires the user to compute and report gain or loss. The \$200 personal-transaction exclusion for foreign currency gains (§988(e)) does not apply because stablecoins are not currency, and Treasury’s broker reporting regulations provide only partial, optional reporting relief for stablecoin sales and no relief from gain or loss recognition.

WHAT THE BILL DOES.

- Creates new IRC §1034: **no gain or loss is recognized** on the use of a covered payment stablecoin to purchase products or services. Investment sales and exchanges fall outside the rule.
- A **covered payment stablecoin** must (1) be issued by a permitted U.S. or foreign issuer under the GENIUS Act, (2) appear on a **Treasury list, published at least quarterly**, of stablecoins that traded within 3 percent of \$1.00 over the preceding 12 months, and (3) have been acquired by the taxpayer at a price within 3 percent of \$1.00.
- **Excludes** traders, brokers, and dealers in stablecoins (and substantially similar businesses as Treasury provides) and taxpayers using a non-dollar functional currency.
- Requires taxpayers to keep records distinguishing eligible from ineligible transactions and **exempts eligible transactions from Form 1099-DA reporting** under §6045. Brokers may rely on customer certifications, need not verify the acquisition-price condition for stablecoins they did not help acquire, and need not determine facts not reasonably available to them.

WHY IT MATTERS. Payment stablecoins cannot function as a medium of exchange if every purchase creates a tax calculation. Section 2 gives regulated, dollar-backed stablecoins cash-like tax treatment for everyday purchases while keeping investment and business activity fully in the tax base.

SEC. 3 MARK-TO-MARKET ELECTION AND SECTION 199A PARITY FOR DEALERS AND TRADERS

CURRENT LAW. Section 475 requires securities dealers to mark their positions to market and permits commodities dealers and securities and commodities traders to elect that method. Whether a given digital asset is a “security” or an actively traded “commodity” for these purposes is unclear, leaving digital asset dealers and traders without a reliable path to the method. Meanwhile, the §199A deduction treats trading and dealing in securities and commodities as a specified service trade or business subject to income-based limits, but digital asset trading businesses are not clearly covered, giving them a potential advantage over their traditional counterparts.

WHAT THE BILL DOES.

- Adds new §475(g), allowing **dealers and traders in covered digital assets to elect mark-to-market** treatment on the same terms that apply to securities dealers and traders.
- **Covered digital assets** include **traded digital assets, qualified U.S. dollar stablecoins**, notional principal contracts and derivatives referencing traded digital assets, and clearly identified hedges.
- Provides that covered digital assets are governed solely by the new subsection, even if they might also qualify as securities or commodities, avoiding overlapping regimes.
- The election may be made without IRS consent and is revocable only with consent. For the first eligible year, taxpayers get **30 days to identify existing positions** and may take the resulting §481 adjustment into account **ratably over four years**.
- Amends §199A(d)(2)(B) to add **trading or dealing in traded digital assets and covered digital assets** to the specified service trade or business definition, alongside securities, partnership interests, and commodities.

WHY IT MATTERS. Mark-to-market accounting is the standard method for market makers and active traders. Extending it to digital assets improves accuracy, simplifies compliance, and treats these businesses the same as their traditional-market counterparts, including under the qualified business income deduction.

SEC. 4 SOURCE RULES FOR STAKING AND MINING

CURRENT LAW. The IRS treats mining rewards as income when received (Notice 2014-21) and staking rewards as income when the taxpayer gains dominion and control (Rev. Rul. 2023-14), but no Code provision or guidance says where either type of income is sourced. Because validation occurs on globally distributed networks, the “place of performance” test used for services income is unworkable. Foreign investors in U.S. staking products face uncertain withholding and effectively connected income exposure, and miners face similar uncertainty.

WHAT THE BILL DOES.

- Adds new §863(f): income from **digital asset validation supporting activities**, which covers staking, mining, and related validation activity, is **U.S.-source if derived by a U.S. person and foreign-source if derived by a foreign person**.
- **Mining pools:** amounts received directly through a mining pool for performing mining or contributing computing power are treated as validation income; **fees for services provided to others**, such as hosting and equipment management, are not.
- **Branch rules:** income attributable to a U.S. person's foreign branch is foreign-source, and income attributable to a foreign person's U.S. office is U.S.-source. For mining, Treasury must prescribe attribution rules that take into account **the location and relative contribution of the computing equipment, the location of personnel who operate, manage, and maintain it**, and other relevant functions, assets, and risks.
- Applies to partnerships at the partner level unless Treasury provides otherwise, and includes a **no-inference rule** on whether, or when, validation rewards are includible in gross income.

WHY IT MATTERS. A clear residence-based rule mirrors how investment income is generally sourced, gives U.S. custodians and exchange-traded products a certain rule to administer, and helps keep staking activity and capital in the United States. Tying branch-level mining income to where the equipment and workforce are located ensures that mining operations on American soil are taxed here.

SEC. 5 TRADING SAFE HARBOR FOR FOREIGN INVESTORS

CURRENT LAW. Since 1966, §864(b)(2) has provided that foreign persons trading stocks, securities, or commodities through U.S. brokers or for their own account are not engaged in a U.S. trade or business. Digital assets are covered only if they happen to qualify as securities or as commodities of a kind customarily dealt in on an organized exchange, leaving foreign investors exposed to U.S. net-basis tax and filing obligations.

WHAT THE BILL DOES.

- Adds new §864(b)(2)(C), extending both prongs of the safe harbor, **trading through an independent agent and trading for the taxpayer's own account**, to traded digital assets. The own-account prong covers trading through a resident broker, commission agent, custodian, **staking provider**, or other agent.
- The own-account prong **does not apply to dealers** in covered digital assets.
- Includes a **no-inference rule** for periods before the effective date.

WHY IT MATTERS. The safe harbor is a key reason foreign capital flows through U.S. markets. Extending it to digital assets encourages foreign investors to use U.S. platforms and service providers rather than offshore alternatives.

SEC. 6 DIGITAL ASSET LENDING

CURRENT LAW. Section 1058 allows a lender of securities to avoid recognizing gain or loss when the loan agreement requires return of identical securities and passes through dividends and interest. The rule covers only “securities,” so a lender of digital assets risks being treated as having sold the asset. Related rules that treat securities loan payments as passive income for tax-exempt organizations and regulated investment companies likewise do not clearly reach digital assets.

WHAT THE BILL DOES.

- Amends §1058 to cover **“applicable assets,”** defined as securities and traded digital assets, so qualifying **digital asset loans are not taxable dispositions**.
- Permits loan agreements to pass through **amounts equivalent to protocol distributions, staking rewards, and transaction, priority, and tip fees allocated by reason of staking**, to the extent Treasury provides.
- Extends the treatment of securities loan payments to digital asset loan payments for purposes of the **UBTI exclusion** (§512), the **debt-financed property rules** (§514), **RIC qualifying income** (§851), **private foundation investment income** (§4940), and related provisions.
- Applies to transfers after enactment, with a **no-inference rule** for earlier transactions.

WHY IT MATTERS. Lending markets supply liquidity and support price discovery. Clear nonrecognition treatment lets investors and institutions lend digital assets on the same terms as stocks and bonds.

SEC. 7 APPLICATION OF THE WASH SALE RULE

CURRENT LAW. The wash sale rule (§1091) disallows a loss when a taxpayer buys substantially identical “stock or securities” within 30 days before or after the sale. Because the IRS treats digital assets as property rather than securities, investors can sell at a loss, repurchase immediately, and deduct a loss while keeping the same economic position.

WHAT THE BILL DOES.

- Expands §1091 to “**specified assets**,” defined as stock, securities, and **traded digital assets other than qualified U.S. dollar stablecoins**.
- Treats a **tokenized or bridged digital asset** as substantially identical to any stock, security, or traded digital asset to which it is economically equivalent.
- **Exceptions** for digital assets acquired through validation (staking and mining rewards), assets acquired in a **regular or periodic series of acquisitions reported as ordinary income**, dispositions used to pay de minimis transaction costs under Section 11, and positions marked to market under §475.
- Updates the short sale and futures contract rules, and directs brokers to compute basis without regard to the wash sale rule unless the transactions occur **in the same account in identical assets**.
- Applies to sales after enactment, does not apply to digital assets acquired before enactment, and **delays broker reporting** of wash sales for non-security digital assets until 2028.

WHY IT MATTERS. Loss harvesting without economic risk is available for digital assets but not for stocks. Section 7 ends that disparity, protects the tax base, and ensures digital asset investors follow the same rules as everyone else.

SEC. 8 STAKING BY EXCHANGE-TRADED TRUSTS AND PARTNERSHIPS

CURRENT LAW. Most digital asset exchange-traded products are grantor trusts, which may not hold a “power to vary” investors’ investments (Treas. Reg. §301.7701-4(c)). Revenue Procedure 2025-31 created an administrative safe harbor permitting certain trusts to stake, but it can be revised or withdrawn. Separately, publicly traded partnerships are taxed as corporations unless at least 90 percent of their income is qualifying income under §7704(d); commodities gains qualify, but digital asset income is not clearly covered.

WHAT THE BILL DOES.

- Adds new §7701(p): for a **covered digital asset investment trust**, powers to **stake or unstake**, to use a **borrowing facility to meet redemptions**, and to **respond to technology changes** are not treated as powers to vary the investment.
- A covered trust must be **listed on a national securities exchange** and comply with SEC rules, **hold a single proof-of-stake asset**, use a **qualified custodian**, and stake through custodians with **staking providers unrelated to the trust and custodian**.
- The rule **does not apply** to entities actively conducting a validation business.
- Amends §7704(d) to treat **staking rewards (to the extent includible in income)**, **loan payments on traded digital assets**, and **gains on digital assets and digital asset derivatives** as qualifying income, while excluding spread, commission, and fee income from exchanges, lending platforms, brokers, and dealers.

WHY IT MATTERS. Codifying the trust safe harbor gives investors and fund sponsors durable certainty, and parity for publicly traded partnerships opens another regulated, transparent vehicle for investing in digital assets.

SEC. 9 APPLICATION OF THE CONSTRUCTIVE SALE RULE

CURRENT LAW. Section 1259 treats a taxpayer as selling an appreciated position in stock, a debt instrument, or a partnership interest when the taxpayer enters into a short sale, offsetting notional principal contract, or similar transaction that eliminates risk of loss and opportunity for gain. Digital assets are not covered, so holders can hedge away all economic exposure and defer gain indefinitely.

WHAT THE BILL DOES.

- Extends §1259 to appreciated positions in **digital assets** (other than qualified U.S. dollar stablecoins).
- Treats **tokenized and bridged digital assets** as substantially identical to economically equivalent stock, debt, partnership interests, or widely traded digital assets.
- Applies to constructive sales after enactment, and **no pre-enactment transaction** is treated as a constructive sale.

WHY IT MATTERS. This anti-abuse rule has applied to stocks since 1997. Extending it to digital assets closes a deferral strategy that is unavailable to ordinary stock investors.

SEC. 10 CHARITABLE CONTRIBUTIONS OF DIGITAL ASSETS

CURRENT LAW. Donors claiming a deduction of more than \$5,000 for noncash property generally must obtain a qualified appraisal, but publicly traded securities are exempt because their value is readily determined. The IRS has concluded that digital assets do not fall within that exception (CCA 202302012), so donors must pay for appraisals of assets with transparent market prices or risk losing the deduction.

WHAT THE BILL DOES.

- Amends §170(f)(11) to add **widely traded digital assets** to the appraisal exception, with Treasury authority to deny the exception where necessary **to prevent abuse**.

WHY IT MATTERS. Requiring an appraisal for an asset with a reliable market price adds cost without improving compliance. Section 10 removes a barrier to charitable giving while keeping the exception limited to liquid, widely traded assets.

SEC. 11 DE MINIMIS NETWORK FEES

CURRENT LAW. Paying a blockchain network fee with a digital asset is itself a disposition of property. A single transfer can therefore require the user to calculate gain or loss on a fee worth a few cents, and there is no de minimis exception.

WHAT THE BILL DOES.

- Creates new IRC §1044: **no gain or loss is recognized** on a digital asset used to pay a **digital asset transaction cost** if the total value used for costs of the transaction is **\$10 or less**.
- Transaction costs include **network, gas, base, and priority fees and tips**, whether paid to a person or a protocol or burned, as well as commissions and transfer taxes, for transactions the taxpayer initiates and that are recorded on the ledger.
- Costs relating to the same **economic transaction** are aggregated, including a series of transactions structured to avoid the cap, but transactions are **not aggregated merely because they run through the same account, wallet, protocol, smart contract, or automated strategy**. Basis and cost are adjusted so unrecognized gain or loss is not duplicated.
- **Excludes** traders, brokers, and dealers; businesses that batch or facilitate validation for others; taxpayers who **initiated more than 5,000 digital asset transactions** in the prior year; and mark-to-market assets. Treasury must issue **anti-structuring** rules.
- Exempts eligible dispositions from transaction-level broker reporting, subject to **aggregate reporting** Treasury requires to verify basis, and **exempts these dispositions from the wash sale rule**.

WHY IT MATTERS. Taxing pennies of gain on network fees creates a compliance burden far exceeding any revenue at stake. Section 11 removes that friction for ordinary users while denying the benefit to high-volume and professional actors.

SEC. 12 STAKING BY TAX-EXEMPT ORGANIZATIONS

CURRENT LAW. Tax-exempt organizations pay tax on unrelated business taxable income (UBTI), but §512(b) excludes passive income such as dividends, interest, royalties, and rents. Staking rewards are not listed, creating a risk that pensions, endowments, and IRAs that stake, directly or through funds, owe UBTI on the rewards.

WHAT THE BILL DOES.

- Adds new §512(b)(20), **excluding income from qualified digital asset validation activity** and directly connected deductions from UBTI. The term covers validation of transactions on a decentralized ledger in which the organization **does not substantially participate**.
- An organization does not substantially participate if it **owns the assets and delegates validation rights to another person on arm's-length terms**, does not operate validator nodes or control validator selection beyond delegating and committing tokens, and does not otherwise seek to control the activity.
- Consistent with the treatment of other passive income, the exclusion **does not override the debt-financed property rules** of §514.
- Directs Treasury to issue guidance, including **anti-abuse rules**.

WHY IT MATTERS. Passive staking is an investment return, not a business. Treating it like dividends and interest lets retirement savers and charitable endowments participate in staking without an unexpected tax.

SEC. 13 BEARER OBLIGATION RULES

CURRENT LAW. To stop the use of anonymous bearer bonds, the Code denies an interest deduction for registration-required obligations issued in bearer form (§163(f)) and imposes an excise tax on their issuers (§4701). These 1982 rules were written for paper certificates. Because digital assets transfer without a registrar and often have no maturity date, issuers of stablecoins and other tokens face uncertainty about whether these penalties apply and how the tax would even be computed.

WHAT THE BILL DOES.

- Amends §163(f)(2)(A) to provide that a **qualified U.S. dollar stablecoin is not a registration-required obligation**.
- Provides that for digital assets, the **required disclosure statement** may be carried in the written terms or marketing materials for the asset, and in other locations Treasury specifies.
- Treats a digital asset with **no fixed maturity date** as maturing **25 years after issuance**, so the excise tax rules can be applied on a determinable basis.
- Applies to taxable years ending after the date of introduction, with the no-maturity rule applying to digital assets issued after that date.

WHY IT MATTERS. Rules designed to stop anonymous paper bonds in the 1980s should not create open-ended liability for regulated dollar stablecoins and other digital assets. The section removes a legal cloud without weakening the anti-evasion purpose of the bearer obligation rules.

SEC. 14 REDOMICILING DECENTRALIZED AUTONOMOUS ORGANIZATIONS

CURRENT LAW. Many decentralized autonomous organizations are housed in offshore foundations, typically because U.S. tax and entity rules offered no workable alternative. Bringing those structures back onshore can trigger uncertain and potentially punitive tax results, and no guidance sets out a clean path, so projects with substantial U.S. participation stay abroad.

WHAT THE BILL DOES.

- Requires Treasury, **within 12 months of enactment**, to issue regulations or guidance on the tax treatment of reorganizations of applicable foreign entities and of related U.S. persons.
- The guidance must **clarify how these entities may reorganize as domestic corporations** under subchapter C and, where appropriate, provide **temporary safe harbors** encouraging entities organized before September 24, 2026, to redomicile promptly.

- **Applicable foreign entity** means an entity established in connection with a decentralized autonomous organization and organized abroad as a foundation or similar non-profit-purpose structure.

WHY IT MATTERS. If the tax code makes coming home prohibitively expensive, projects and the jobs that come with them stay offshore. This section gives Treasury a deadline and a mandate to build an onshoring path.

SEC. 15 DEFINITIONS

CURRENT LAW. The only statutory definition of “digital asset” is in the broker reporting rules (§6045(g)(3)(D)), added in 2021 for information reporting purposes only. The Code has no definitions of staking, mining, validation, stablecoins, or the wrapped, bridged, and liquid staking instruments that now make up much of the market.

WHAT THE BILL DOES.

- Adds new §7701(q) with Code-wide definitions of **digital asset**, **digital asset transaction** (any instruction submitted and recorded on the ledger, whether or not it transfers an asset or succeeds), **validation**, **staking**, **mining**, and **validation supporting activities**. **Mining** is limited to proof-of-work activity and expressly excludes staking and proof-of-stake validator nodes.
- Defines **staking reward** as protocol-created units received from validation, excluding fees, commissions, and spreads received for providing validation, staking, exchange, or lending services to others. A **protocol-issued reward is not service compensation** merely because the taxpayer validates directly or delegates its assets to a validator.
- Defines **qualified U.S. dollar stablecoin** by reference to issuers permitted under the **GENIUS Act**, including foreign issuers registered with the OCC or covered by a Treasury comparability determination. The mere absence of a prohibition is not enough.
- Defines **tokenized** (a digital representation of a non-digital asset), **bridged** (redeemable one-for-one on another ledger), **receipt token** (redeemable for underlying digital assets, such as liquid staking tokens), and **traded digital assets**. A **widely traded digital asset** must have a full year of exchange quotations, **market capitalization above \$500 million** (indexed for inflation after 2027), and **no more than 10 percent related-party ownership**; bridged assets and receipt tokens take the status of what they represent, and Treasury may exclude assets at risk of manipulation and adjust the test as market structure law develops.
- Moves the existing reporting definition into the general definitions section with conforming changes.

WHY IT MATTERS. Consistent, statutory definitions give taxpayers and the IRS a common vocabulary and allow the bill's targeted rules to reach liquid, reliably priced assets while excluding thinly traded or manipulable tokens.

EFFECTIVE DATES AT A GLANCE

SECTION	PROVISION	EFFECTIVE FOR
Sec. 2	Stablecoin payments	Transactions after Dec. 31, 2026
Sec. 3	Mark-to-market; §199A	Taxable years beginning after Dec. 31, 2026
Sec. 4	Staking and mining sourcing	Income derived after date of enactment
Sec. 5	Trading safe harbor	Taxable years beginning after Dec. 31, 2026
Sec. 6	Digital asset lending	Transfers after date of enactment
Sec. 7	Wash sale rule	Sales after enactment; broker reporting for non-security digital assets begins 2028
Sec. 8	Trusts and PTPs	Taxable years beginning after Dec. 31, 2026 (trusts may elect earlier application)
Sec. 9	Constructive sale rule	Constructive sales after date of enactment
Sec. 10	Charitable appraisal exception	Taxable years beginning after Dec. 31, 2026
Sec. 11	De minimis network fees	Dispositions after Dec. 31, 2026
Sec. 12	UBTI exclusion for staking	Taxable years beginning after Dec. 31, 2026
Sec. 13	Bearer obligation rules	Taxable years ending after date of introduction
Sec. 14	DAO guidance	Guidance due within 12 months of enactment