

ADAPT ACT

Aligning Digital Assets with Principles of Taxation Act

SECTION-BY-SECTION

Sen. Steve Daines (R-MT)

Cosponsors: Sen. Tim Scott (R-SC), Sen. Cynthia Lummis (R-WY), Sen. Bernie Moreno (R-OH)

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. 2 EVERYDAY PAYMENTS WITH REGULATED STABLECOINS

- Under current law, **spending a dollar stablecoin on a cup of coffee is a taxable event** that must be tracked and reported, even when the gain or loss is a fraction of a penny.
- Section 2 provides that **no gain or loss is recognized** when taxpayers use GENIUS Act-regulated U.S. dollar stablecoins that hold their \$1.00 peg to **buy goods and services**, and **exempts these transactions from broker information reporting**. The rule is limited to purchases of goods and services, and trader and dealer activity is excluded.

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

- **Allows dealers and traders in traded digital assets to elect mark-to-market accounting**, as dealers and traders in securities and commodities may do today, with transition relief that spreads the switch-over adjustment over four years.
- **Treats digital asset trading and dealing as a specified service trade or business** for the 20 percent qualified business income deduction, the same limitation that already applies to securities and commodities trading.

SEC. 4 SOURCE RULES FOR STAKING AND MINING

- **Sources staking and mining income by the residence of the recipient:** U.S.-source for U.S. persons and foreign-source for foreign persons, ending uncertainty that discourages foreign investors from staking through U.S. custodians and funds. **Mining income earned through a branch follows the location of the computing equipment and personnel**, keeping income from U.S. mining operations in the U.S. tax base.

SEC. 5 TRADING SAFE HARBOR FOR FOREIGN INVESTORS

- **Extends the long-standing securities and commodities trading safe harbor** so foreign investors that trade digital assets through U.S. brokers, or for their own account, are not treated as engaged in a U.S. trade or business. Dealers are excluded.

SEC. 6 DIGITAL ASSET LENDING

- **Extends the securities lending nonrecognition rule (§1058) to traded digital assets**, so lending does not trigger tax, and treats digital asset loan payments like securities loan payments for tax-exempt organizations, mutual funds, and private foundations.

SEC. 7 APPLICATION OF THE WASH SALE RULE

- **Closes the wash sale loophole:** investors can no longer sell digital assets at a loss and immediately buy them back to claim a tax deduction. Economically equivalent tokenized and bridged assets are treated as substantially identical. Regulated stablecoins, staking and mining rewards, and mark-to-market positions are excepted, and the rule applies prospectively.

SEC. 8 STAKING BY EXCHANGE-TRADED TRUSTS AND PARTNERSHIPS

- **Codifies that SEC-regulated exchange-traded trusts may stake** a single proof-of-stake asset through unrelated providers, and manage redemptions and network upgrades, **without losing their tax status** as passive investment trusts.
- **Treats staking rewards, digital asset lending income, and digital asset gains as qualifying income** for publicly traded partnerships, consistent with the treatment of commodities. Fee income from exchanges, lenders, brokers, and dealers does not qualify.

SEC. 9 APPLICATION OF THE CONSTRUCTIVE SALE RULE

- **Applies the constructive sale rule** to digital assets (other than regulated stablecoins), so investors cannot lock in gains through offsetting positions, such as short sales, while deferring tax indefinitely. Transactions entered into before enactment are protected.

SEC. 10 CHARITABLE CONTRIBUTIONS OF DIGITAL ASSETS

- **Exempts gifts of widely traded digital assets from the costly qualified appraisal requirement**, as already applies to publicly traded stock, making it easier for taxpayers to give to charity.

SEC. 11 DE MINIMIS NETWORK FEES

- **No gain or loss is recognized when a digital asset is used to pay network, gas, or other transaction fees of \$10 or less** per transaction, with **reporting relief** for brokers. Guardrails exclude traders, dealers, validators, high-volume users (more than 5,000 transactions a year), and transactions structured to qualify.

SEC. 12 STAKING BY TAX-EXEMPT ORGANIZATIONS

- **Excludes income from qualified (passive) staking from the unrelated business income tax**, putting it on the same footing as dividends and interest for pensions, endowments, foundations, and IRAs. Staking income from debt-financed assets remains taxable.

SEC. 13 BEARER OBLIGATION RULES

- **Keeps regulated stablecoins and other digital assets out of the Reagan-era bearer bond penalty regime**, which was written for paper instruments and can reach digital assets that have no registered holder or no maturity date.

SEC. 14 REDOMICILING DECENTRALIZED AUTONOMOUS ORGANIZATIONS

- **Directs Treasury to issue guidance within 12 months** on how foreign foundations set up for decentralized autonomous organizations can **reorganize as U.S. corporations**, including temporary safe harbors for entities formed before the bill's introduction.

SEC. 15 DEFINITIONS

- **Establishes Code-wide definitions** for digital assets, staking, mining (limited to proof-of-work), validation, staking rewards, regulated stablecoins (tied to the GENIUS Act), and tokenized, bridged, receipt-token, traded, and widely traded digital assets. The widely traded test uses a **\$500 million market capitalization and liquidity standard** with anti-manipulation safeguards and Treasury authority to adapt to future market structure legislation.

EFFECTIVE DATES. Most provisions apply to taxable years or transactions after December 31, 2026. The staking and mining sourcing rules, digital asset lending, and the wash sale and constructive sale rules apply prospectively from enactment; Treasury guidance on decentralized autonomous organizations is due within 12 months.