

New Bitcoin tax plans could stifle greener blockchain tech

Ongoing efforts to pass a bipartisan infrastructure bill could reshape the cryptocurrency world, as lawmakers debate new tax-reporting requirements on various parts of the blockchain system. *The Washington Post* is reporting that, on Thursday, Treasury Secretary Janet Yellen directly lobbied lawmakers to keep stronger cryptocurrency tax provisions in the infrastructure bill.

It's a sign of how committed the White House is to bringing cryptocurrency into the broader tax-reporting system, even as the details of the new requirements threaten to upset the delicate political balance of the infrastructure plan.

A broad new requirement on cryptocurrency brokers

From the beginning, the drafters of the bipartisan infrastructure framework hoped to offset the rush of new spending with \$28 billion in new cryptocurrency taxes (levied over 10 years). Broadly, the tax proposals have been uncontroversial – but the details of who will bear the burden of reporting transactions have been maddeningly difficult to agree upon.

The initial bill text released on Saturday placed a broad new requirement on cryptocurrency brokers to report transactions as part of their tax returns, similar to existing requirements for trading conventional assets. But the original text left the definition of a “broker” vague, potentially extending to wallet developers or miners.

An amendment from Sens. Ron Wyden (D-OR), Cynthia Lummis (R-WY), and Pat Toomey (R-PA) would explicitly exempt miners from any reporting requirements, but the amendment has yet to pass. More recently, a group of lawmakers led by Sen. Mark Warner (D-VA) has offered a slightly harsher compromise, which has gained more support in Congress but left many cryptocurrency advocates uncomfortable. In particular, advocates are concerned that the uneven reporting requirements in the Warner amendment could lead to a lasting split between different blockchain technologies.

"This is no way to make policy."

Most cryptocurrency still relies on proof-of-work blockchains like Bitcoin, which require energy-intensive mining to certify new entries on the blockchain. But a new model of blockchain would allow miners to certify blocks by staking a certain amount of currency (hence "proof-of-stake"), thus allowing for faster and more complex transactions. Proof-of-stake blockchains are still less popular, but some larger coins (most notably Zcash) are actively considering a switch to the new mode. Ethereum is in the process of launching its own staked blockchain, called Ethereum 2.0 or ETH2.

The Warner amendment defines "broker" to include proof-of-stake miners but not proof-of-work miners, due to the additional complexity and financial flexibility of proof-of-stake mining. But cryptocurrency groups worry that the additional regulatory burden will drive coins away from proof-of-stake systems, stifling the new innovation before it has a chance to take hold.

"The language in the new amendment enshrines one of many competing technologies in law," Coin Center's Neeraj Agrawal told *The Verge*. "It is the government picking a winner on an otherwise competitive field. And worst of all, tech policy of this magnitude is being done as last minute tax provision buried in a massive must-pass infrastructure bill. This is no way to make policy."

The split is particularly divisive given the intense energy demands of proof-of-work mining, a long-standing sore point for cryptocurrency that many had hoped proof-of-stake systems would address. In a tweet Thursday night, Sen. Wyden criticized the Warner amendment through the lens of climate policy, calling it “a government-sanctioned safe harbor for the most climate-damaging form of crypto tech.”

Most Bitcoin groups, including Coin Center, are now pushing for the Wyden amendment as the least damaging option, despite the White House’s lobbying. “This will not happen without your elected reps hearing from you,” said Coinbase CEO Brian Armstrong on Twitter. “Please contact your senators and ask them to support the amendment.”

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