SECTION BY SECTION:

Section 1: Short Title

This section gives the bill its name: the Digital Asset Protection, Accountability, Regulation, Innovation, Taxation, and Yields Act, or the "PARITY Act" for short.

Section 2: Digital Dollars Used Like Cash (Deemed-Basis Rule)

The problem it solves

Today, if you use a digital dollar (called a stablecoin) to buy a coffee, the IRS technically requires you to calculate whether you made a profit on that transaction and report it. A stablecoin is supposed to always be worth exactly $1.00—but if you bought it for $0.999 and spent it, you've made $0.001 of "gain," which must be tracked and reported.

What this section does

It treats regulated digital dollars like actual cash for tax purposes. If you use a dollar-pegged stablecoin to buy something, you do not have to track gains or losses on that transaction. It works just like spending a dollar from your wallet.

Who qualifies?

- The stablecoin must be issued by a company that follows strict federal rules (i.e., GENIUS Act).
- Issuer obligated to convert, redeem, or repurchase at a fixed USD amount
- You must have bought the stablecoin for within 1% of $1.00.

Who does NOT qualify?

- Professional dealers and traders are excluded—this is only for everyday consumers to ensure high frequency traders or large traders pay tax on any arbitrage.

Is this a tax giveaway?

No. It only removes the requirement to track pennies-on-the-dollar fluctuations for assets that are supposed to always be worth $1.00. You still pay taxes on real economic gains from trading, investing, or arbitrage. Think of it this way: you don't calculate your tax liability every time you pull a dollar bill out of your wallet; this provision ensures digital dollars work the same way.

Anti-Abuse Considerations (two-track approach)

- **Statutory eligibility** is automatically lost if the asset trades outside of permitted thresholds and are restricted to rules and regulations based off the GENIUS Act.
- **Regulatory guardrails** authorize Treasury to issue rules, regulations, or guidance to prevent avoidance of tax. These could include efforts to prevent intermediary structuring; coordinated transactions; or any arrangement with a principal purpose of tax avoidance.

Section 3: Encouraging U.S. Crypto Dominance (Safe Harbor)

The problem it solves

If a foreign investor buys stocks through a U.S. brokerage, there are clear rules that prevent them from accidentally being treated as running a U.S. business. Those rules don't cleanly apply to

digital assets—creating uncertainty that pushes foreign trading away from U.S. platforms and toward less-regulated, foreign exchanges.

What this section does
It extends existing safe harbor rules to digital assets. A foreign investor who trades digital assets through a U.S. platform is not treated as "doing business" in the U.S. just because of that trading.

Why does this matter?
Keeping global trading on U.S. platforms is good for the U.S. economy. U.S. exchanges are generally safer, more transparent, and better regulated. Uncertainty pushes trading overseas, while this provision keeps it onshore.

Section 4: Crypto Lending (Expanding §1058)
The problem it solves
When companies lend stocks to someone (for example, for short-selling), it's not treated as a taxable "sale," they're just lending them temporarily and getting them back later. But if they lend crypto, the IRS might treat it as a sale, triggering a tax even though there is no cash out.

What this section does
It extends existing stock-lending rules to crypto. If you lend an eligible digital asset and follow certain requirements, the lending is not a taxable event. Tax only applies when the underlying asset is eventually sold.

What qualifies as an 'eligible digital asset'?
- Must be fungible (interchangeable—like dollars, where one Bitcoin equals another Bitcoin).
- Must have a price that can be easily looked up on a public exchange.
- Cannot represent ownership in a company or give you debt/equity rights.
- Must function as a currency, store of value, or unit of account.

Is this a tax break?
No. It prevents a tax from being triggered when it shouldn't be. You still owe taxes when you actually sell. This just ensures that temporarily lending an asset isn't treated the same as permanently selling it.

Section 5: Closing the Fake-Loss Loophole (Wash Sales)
The problem it solves
Under current law, you can sell your crypto at a loss, claim that loss on your taxes, immediately buy the same crypto back, and end up in exactly the same financial position—but now with a tax benefit. This is called "wash sale" abuse, and it's already illegal for stocks. As is, crypto does not cleanly fit in the wash sale rule.

What this section does
It extends wash sale rules to digital assets. If you sell crypto at a loss and buy it back within 30 days before or after the sale, you cannot use that loss to reduce your taxes. This is the same rule that applies to stocks.

Why does this matter?
It closes a real loophole. Sophisticated investors have been using crypto's exemption to generate artificial tax losses—reducing their tax bills without actually changing their investment positions. This section restores fairness and parity with stock market rules.

Section 6: Mark-to-Market (MTM) for Crypto Dealers/Traders

The problem it solves
Professional securities dealers and active stock traders can access a simplified accounting system called "mark-to-market," where they treat all their positions as if they sold them on December 31 each year. This gives them cleaner accounting. Crypto professionals don't have that same option.

What this section does
It lets professional crypto dealers and active traders elect into mark-to-market accounting. Under this election, all crypto positions are treated as sold at year-end, and gains or losses are recognized as ordinary income, similar to securities dealers.

Who can use this?

- Dealers in "actively traded digital assets."
- Active traders in "actively traded digital assets" who trade for their own account as a trade or business.

Is this a special break?
No! it creates parity with existing rules for stock professionals. Ordinary income treatment actually means they pay a higher tax rate than capital gains, but they get cleaner accounting.

Section 7: Closing the Fake-Sale Loophole (Constructive Sales)

The problem it solves
A wealthy investor can use financial tools (like short sales or futures contracts) to lock in their profit on appreciated crypto without actually selling it. Economically, they've cashed out but they haven't technically triggered a tax; this is known as a "constructive sale." These rules already exist for stocks but don't apply to crypto.

What this section does
It extends constructive sale rules to digital assets. If you use a financial arrangement to lock in your gains on appreciated crypto, that's treated as a taxable sale, just like it would be for stocks. You can't use financial engineering to indefinitely defer taxes on economic gains you've already locked in.

Section 8: Fairer Rules for Miners and Stakers (Validation Rewards Election)

The problem it solves
When you mine or stake crypto, you receive rewards, and sometimes there are thousands of payments every year, each worth pennies. Under current law, every single reward is taxable

income the moment you receive it. However, there to pay that tax, you will have to likely sell the underlying crypto—creating what's called a "phantom income" problem where you owe taxes on money you haven't actually converted to cash.

What this section does

It gives miners and stakers a choice—an "election":

- Option 1 (Default): Pay taxes on rewards right away, at ordinary income rates, when you receive them. This is the current system.
- Option 2 (Deferral Election): Defer reporting the income for up to 5 years. During that period, if you sell, any gain or loss is treated as ordinary income or loss.
- After the recognition of income, either immediately or within the 5-year window, further appreciation is taxed as long-term capital gain.

What prevents abuse?

- You can't defer indefinitely; the election lasts at most 5 years.
- Disposals during the election period are ordinary income, not capital gains.
- This prevents holding forever and passing to heirs with a stepped-up basis (a loophole in other proposals).

Capital gains vs. ordinary income—why does it matter?

Our compromise preserves the economic distinction between newly created income (the reward) and investment appreciation (post-acquisition gain). The bill cleanly separates these two things.

<u>Section 9: Charitable Contributions</u>

The problem it solves

When you donate stock to charity, there are different rules depending on whether it's a liquid, publicly traded stock (no appraisal needed) or an illiquid private asset (appraisal required). Crypto didn't fit neatly into either category, causing confusion. Worse, illiquid crypto could be overvalued at the time of donation, letting donors take bigger deductions than the charity actually received.

What this section does (two-track approach)

Track 1 — Large, liquid crypto (like Bitcoin or Ethereum):

- No appraisal required—just like donating publicly traded stock.
- Asset must be fungible, have very high trading volume ($50M daily), and the donor cannot own more than 5% of supply.

Track 2—Small, illiquid, or speculative crypto:

- Deduction is limited to what the charity actually receives when it sells the asset.
- Requires a written acknowledgment from the charity with details of the sale.
- Prevents inflated deductions where someone donates a speculative token worth $100 on paper but the charity can only sell it for $5.

Fraud prevention

If a charity provides a false acknowledgment (e.g., claims a sale happened at a higher price than it did), the charity faces significant financial penalties.

<u>Section 10: Tax Treatment of Certain Digital Asset Activities (UBTI/ECI Clarification)</u>

The problem it solves

University endowments, pension funds, and other institutions can lose their tax-exempt status if they conduct too much business activity that is triggered by "Unrelated Business Taxable Income" (UBTI). It's been unclear whether simply holding and staking crypto would count as a business activity, creating legal uncertainty that has kept institutional money on the sidelines.

What this section does

It codifies a clear rule: passive staking is NOT a trade or business. If you're just holding crypto and participating in network validation (staking) with no significant business expenses, you don't accidentally become a business.

Who benefits?

- University endowments and foundations.
- ETFs and investment trusts holding digital assets.

What is 'passive staking'?

Staking by an entity that has no deductible business expenses related to the activity. If you're paying employees, running servers, or deducting costs—that's *active*, not passive, and the rule doesn't apply.

<u>Section 11: Definitions</u>

What this section does

This section creates a uniform glossary of terms that applies across the entire tax code for digital assets. Having consistent, statutory definitions prevents courts and regulators from making inconsistent interpretations. Key terms defined include:

- Digital asset — any digital representation of value on a cryptographically secured distributed ledger.
- Digital asset exchange — a platform that holds or controls digital assets on behalf of users.
- Actively traded digital asset — fungible, with at least $50M in daily trading volume and $10B in market cap over prior years.
- Eligible digital asset — fungible, liquid, and functions as a currency/store of value (not equity or debt in a company).
- Traded digital asset — similar to eligible digital asset, used for the safe harbor provision.
- Validation activity — staking, mining, or similar activities supporting network validation.

<u>Section 12: Study on Consumer Relief</u>

The problem it's designed to address

Many people want a simple rule that says: if you buy something small with crypto and it's a tiny transaction, you don't have to report it. This is called a "de minimis" exemption. The problem is that building a rule like this that actually works—one in which the IRS can enforce, that can't be

gamed, and that doesn't create more paperwork than it eliminates—is potentially impossible with current IRS resources and technology.

What this section does

Rather than enact a rule that looks good on paper but can't actually be enforced, this section:

- Directs Treasury to study the problem in depth and report to Congress within 1 year.
- Requires interim guidance within 180 days identifying areas where Treasury might already have authority to provide some relief.
- Sends a clear message from Congress that everyday consumers should not be buried in compliance burdens for buying a cup of coffee with crypto.

What it does NOT do

- It does not create a de minimis exemption.
- It does not give Treasury new authority to create one.
- It does not pre-judge the outcome of the study.

Why not just pass a de minimis rule now?

Every mechanism that's been proposed (e.g., annual caps, per-transaction thresholds, simplified basis rules) requires IRS verification infrastructure that doesn't currently exist. Enacting a rule without enforcement creates a loophole, not relief. The study provision is the responsible path: build the evidentiary record first, then design the right solution.