Staking Rewards After *Paschall*: What Crypto Taxpayers, CPAs, and Tax Lawyers Should Take Away From the First Tax Court Merits Decision[1]

by Philipp Behrendt

Hot off the press is the Tax Court's decision in *Paschall v. Commissioner*, T.C. Memo. 2026-46, which is the first significant merits decision addressing whether proof-of-stake rewards are taxable when received. The Court held that Alvie and Patricia Paschall had unreported income from Cardano staking rewards credited to Mr. Paschall's eToro account in 2021.

The decision does not resolve every staking fact pattern, nor does it end the debate over the "newly created property" theory advanced in *Jarrett v. United States*, 79 F.4th 675 (6th Cir. 2023). But it materially changes the risk analysis for taxpayers who excluded staking rewards from income, particularly where the rewards were received through a custodial exchange or platform.

What Staking Is

Staking is a feature of proof-of-stake blockchains.

A blockchain is a distributed ledger: many independent computers maintain copies of the same transaction history. Because there is no central bank, broker, or clearinghouse deciding which transactions are valid, the network needs a mechanism to confirm that proposed transactions are legitimate and that the same tokens are not spent twice. That process is generally referred to as validation. In a proof-of-work system, such as Bitcoin, miners gather transactions into candidate blocks and compete to solve a cryptographic puzzle, usually by finding a hash that satisfies the network's difficulty target. The first miner to find a valid solution broadcasts the proposed block to the network. Other nodes then verify that the block and the transactions comply with the protocol rules before the block is accepted into the blockchain. In a proof-of-stake system, validation is performed by validators who commit, or receive delegated commitments of, the network's native token as collateral. In many proof-of-stake systems, validators are selected by protocol rules that function somewhat like a weighted lottery: the more tokens staked or delegated to a validator, the greater the chance that the validator may be selected to propose or validate a block and earn rewards.

[1] *The information provided in this blog is for general informational and educational purposes only. It does not constitute professional tax, accounting, financial or legal advice and cannot be construed as legal representation. You should always consult with a qualified tax professional regarding your specific situation.*

Validators may then be selected to check transactions, propose new blocks, or otherwise help secure the network; if they act improperly, certain protocols can penalize them by confiscating or withholding part of their stake. See *Paschall v. Comm'r*, T.C. Memo. 2026-46; Rev. Rul. 2023-14, 2023-33 I.R.B. 484.

Staking is not an exotic corner of crypto. It is a common feature of major proof-of-stake networks and is widely offered by retail exchanges, custodians, and institutional staking providers. For example, Coinbase lists several stakeable assets, including Ethereum, Solana, Cardano, Avalanche, Polkadot, Cosmos, Polygon, and Tezos. Ethereum is currently the cryptocurrency with the largest market cap, and Coinbase's Ethereum staking page reports that approximately one-third of eligible ETH is staked, with a staking market capitalization of currently just short of $70 billion and ca. 33% of eligible tokens being staked.[2]

For tax purposes, however, "staking" should not be treated as a single fact pattern. At least four forms matter. First, a taxpayer may operate validator infrastructure directly, running the relevant node or validator software and participating in block validation. Second, a taxpayer may delegate tokens to a validator, allowing another person or entity to perform the validation activity while the taxpayer receives a share of rewards. Third, a taxpayer may stake through a custodial exchange or platform, as in *Paschall*, where eToro executed the staking process and distributed Cardano rewards to customers. Fourth, a taxpayer may use liquid staking, in which the taxpayer transfers tokens to a liquid staking provider and receives a receipt or liquid staking token that can itself be transferred or used in DeFi.

Those distinctions are not merely technical. They can affect the factual predicates for income recognition, dominion and control, valuation, information reporting, and the taxpayer's ability to argue that rewards are self-created property rather than income received from a platform, validator, or protocol.

The Basic Tax Question

The basic staking issue has always been deceptively simple: when a taxpayer receives new tokens as staking rewards, has the taxpayer received income at that time, or has the taxpayer merely created or acquired property that will be taxed only when later sold, exchanged, or otherwise disposed of?

[2] https://www.coinbase.com/earn/staking/ethereum/

The IRS's current published answer is Rev. Rul. 2023-14, 2023-33 I.R.B. 484. The ruling states that a cash-method taxpayer who stakes cryptocurrency native to a proof-of-stake blockchain and receives additional units as validation rewards must include the fair market value of those rewards in gross income in the taxable year in which the taxpayer gains dominion and control over them. It also states that the same result applies where the taxpayer stakes through a cryptocurrency exchange.

Taxpayers challenging the IRS's view have framed staking differently. On that view, the taxpayer has not received income from another person. Instead, the taxpayer has participated in a protocol and created new property. As self-created property, the new tokens are not income upon receipt but upon sale. The familiar analogies are crops grown by a farmer, a manuscript written by an author, or goods manufactured by a business. In each case, the taxpayer generally is not taxed when the property comes into existence; tax is imposed when the property is sold or otherwise disposed of.

That is the conceptual fight behind *Jarrett*. *Paschall* now provides the first Tax Court answer to that fight, but only on the particular facts before it.

***Jarrett I*: A Closely Watched Case with No Merits Holding**

Jarrett I involved Joshua and Jessica Jarrett's 2019 Tezos staking rewards. The Jarretts reported the rewards, paid the tax, and then sought a refund. Their position was that Mr. Jarrett created new Tezos tokens through staking and therefore did not realize income until he sold or transferred those tokens. The Sixth Circuit described the facts as involving 8,876 Tezos tokens generated in 2019 that Jarrett did not sell, exchange, or otherwise dispose of during that year.

But the Court in *Jarrett I* did not decide whether that position was correct. The Department of Justice approved a full refund, and the IRS issued a refund check, including statutory interest. Jarrett declined to cash the check because he wanted a judicial ruling on the staking issue. Ultimately, the district court dismissed the case as moot, and the Sixth Circuit affirmed. In other words, *Jarrett I* is historically important but substantively limited: it preserved public attention on the staking issue, but it did not produce a merits holding. *Jarrett v. United States*, No. 3:21-cv-00419, 2022 WL 4793235 (M.D. Tenn. Sept. 30, 2022), aff'd, 79 F.4th 675 (6th Cir. 2023).

Jarrett II: The Same Core Theory Returns

The Jarretts later filed another refund suit, this time for the 2020 tax year. The complaint again asserts that tokens created through staking are new property and should not be treated as income when created or received. The new case directly challenges Rev. Rul. 2023-14, which had been issued after the first Jarrett case was underway. *Jarrett v. United States*, No. 3:24-cv-01209 (M.D. Tenn. filed Oct. 10, 2024).

Jarrett II advances two related arguments. First, newly created staking rewards should not be taxed until transferred or otherwise disposed of. Second, to the extent staking rewards dilute the value of existing tokens, immediate taxation may overstate the taxpayer's economic gain. The complaint uses analogies to vegetables grown by farmers, manuscripts written by authors, and widgets manufactured in a factory.

Jarrett II is still pending. That means *Jarrett II* remains important after *Paschall*. It may present a different factual record and a different litigation posture. *Paschall* was a Tax Court deficiency case involving custodial exchange staking through eToro. *Jarrett II* is a refund suit involving Tezos staking and the "newly created property" theory in a more direct validator-oriented context. The distinction does not mean the Jarretts will prevail. It means that *Paschall* should not be read more broadly than its facts support.

The eToro Facts in _Paschall_

The *Paschall* facts were important to the Court's analysis. Mr. Paschall held Cardano tokens in an eToro account. Cardano uses a proof-of-stake blockchain. eToro offered a staking service for customers who held Cardano. By default, customer Cardano tokens were staked, although customers could opt out. eToro executed the staking process on behalf of customers. Customers received monthly Cardano rewards in proportion to the number of tokens held in their eToro accounts. eToro retained a fee of 10% to 25%, depending on membership level. Mr. Paschall did not own or operate the eToro staking pool. *Paschall v. Comm'r*, T.C. Memo. 2026-46.

Mr. Paschall's Cardano tokens were staked through eToro for all of 2021, and he never opted out. Cardano rewards were added to his account monthly without any action required by him. The rewarded Cardano tokens were indistinguishable from the existing Cardano tokens in his account. Importantly, the Tax Court found that Mr. Paschall could sell any of his Cardano tokens for cash at any time. Later in 2021, eToro announced that it would delist Cardano and restricted Mr. Paschall's ability to transfer Cardano to another account or

platform, but he retained the ability to sell. eToro issued a Form 1099-MISC reporting $33,354 of other income from staking rewards.

The Court held that the staking rewards were taxable when received. It relied on I.R.C. § 61, the broad concept of gross income, and dominion-and-control principles. The Court did not rely on Rev. Rul. 2023-14. That is important because the taxpayers had argued that the ruling could not be applied retroactively and, after *Loper Bright Enterprises v. Raimondo*, 144 S. Ct. 2244 (2024), should not control. The Court avoided that dispute because it concluded that § 61 and related case law were sufficient.

The Taxpayer Arguments Rejected in *Paschall*

The Court rejected three principal taxpayer arguments.

First, the taxpayers argued that Mr. Paschall lacked dominion and control because eToro restricted his ability to transfer Cardano to another wallet. The Court disagreed because he could sell the tokens for cash. In the Court's view, the ability to convert the tokens to cash was sufficient dominion and control, even if transfer to another wallet was restricted. The Court relied on traditional income principles, including *Helvering v. Horst*, 311 U.S. 112 (1940), and the Tax Court's analysis in *Webber v. Commissioner*, 144 T.C. 324 (2015), which itself cited *Christoffersen v. United States*, 749 F.2d 513 (8th Cir. 1984).

Second, the taxpayers analogized staking rewards to non-taxable pro rata stock dividends under *Eisner v. Macomber*, 252 U.S. 189 (1920). The Court rejected that analogy. A pro rata stock dividend does not change the shareholder's proportionate economic interest. By contrast, the Court found that Mr. Paschall's staking rewards increased his proportionate and economic interest in Cardano. The Court also noted that not all Cardano holders automatically received rewards; holders had to stake, and some holders could opt out or hold Cardano elsewhere.

Third, the taxpayers argued that staking rewards are self-created property, like a baker's cake or a writer's book. The Court rejected that analogy on the facts. Mr. Paschall did not operate the staking pool. eToro executed the staking process. The protocol awarded additional tokens. The Court viewed the taxpayer as receiving rewards, not creating property himself. The Court also noted that the government's concession in *Jarrett I* was not binding.

Comparing eToro in *Paschall* with Tezos in *Jarrett*

The comparison between *Paschall* and *Jarrett* should be central to any client analysis.

In *Paschall*, the taxpayer used a custodial platform. eToro held the account relationship, executed staking, distributed rewards monthly, retained a fee, and issued a Form 1099-MISC. Mr. Paschall did not own or operate the staking pool. His role was economically meaningful—he owned the staked Cardano and could opt out—but operationally limited. The Court's self-created-property analysis was shaped by that limited role.

The Jarrett fact pattern is more technically involved. For part of the year, Mr. Jarrett delegated staking to another party, but later delegated staking to himself and participated more directly in network operations, including maintaining a current copy of the Tezos blockchain on a dedicated computer with supporting internet, backup storage, and backup power. That distinction may matter because the more the taxpayer actually performs the validation activity, the stronger the factual basis for arguing that the taxpayer is not merely receiving platform-administered yield. A reward for baking a block may support a different argument than a reward earned because another validator performed the relevant block activity.

The common features are also important. Both cases involve proof-of-stake rewards paid in the native token of the relevant blockchain. Both involve taxpayers who already held the relevant token and received additional units because their holdings were staked. Both raise the question whether the receipt of additional tokens is an accession to wealth under I.R.C. § 61 or merely the creation of property that should be taxed only when sold. Both also require courts to fit blockchain-native activity into older tax categories that were not designed with proof-of-stake networks in mind.

The differences, however, are the likely battleground. Exchange staking looks more like a taxpayer receiving a platform-administered yield or reward. Direct validation looks more like active participation in network maintenance. Delegated staking sits somewhere between the two. A taxpayer who merely holds tokens on a platform that automatically stakes them may face a harder time arguing self-created property after *Paschall* than a taxpayer who directly validates blocks, runs infrastructure, and can document the protocol mechanics.

Where *Rogovy* Fits

Another pending case that will shape the taxation of crypto is *Rogovy v. Commissioner*, Docket No. 17513-24. The trial took place in April.

Unlike *Paschall*, *Rogovy* is not a staking case. It involves hard forks of cryptocurrencies during 2017 and 2018 and asks whether forked coins gave rise to gross income under I.R.C. § 61. The Commissioner determined substantial unreported income from alleged "Bitcoin Hard Fork Income," including amounts reported under an S corporation K-1 theory and as other income. Petitioners moved for partial summary judgment, arguing that the hard forks did not result in an accession to wealth, clearly realized, over which they had complete dominion. See *Comm'r v. Glenshaw Glass Co.*, 348 U.S. 426, 431 (1955); *Rogovy v. Comm'r*, No. 17513-24 (T.C. Mar. 18, 2026).

The Tax Court denied the petitioner's motion for partial summary judgment. It did not decide whether the hard forks were taxable events. Instead, the Court held that factual disputes remained over both realization and dominion and control. The parties disputed whether the forked coins were accessible after the forks, whether obtaining them involved substantial risk or difficulty, and whether Mr. Rogovy had notice of the forks during the years at issue. Those disputes were enough to prevent judgment as a matter of law. *Rogovy*, No. 17513-24 (T.C. Mar. 18, 2026).

Although *Rogovy* involves hard forks rather than staking rewards, it belongs in the same broader conversation as *Jarrett* and *Paschall*. Each case tests how traditional income-tax concepts—accession to wealth, realization, constructive receipt, and dominion and control—apply when crypto protocols produce or make available new digital assets. The technical mechanisms differ: a hard fork may create coins on a copied blockchain, while staking rewards arise from proof-of-stake validation or delegation. But both raise the question whether the taxpayer has merely become associated with a new asset or has realized income over which the taxpayer has sufficient control.

Rogovy also has a practical litigation lesson. In a separate order, the Tax Court granted in part a protective order permitting redaction of wallet addresses, public keys, private keys, transaction hashes, exchange account information, and exact quantities of digital assets transferred. The Court recognized that linking a named taxpayer to wallet-level information could allow public tracing of past and future blockchain activity. *Rogovy v. Comm'r*, No. 17513-24 (T.C. Oct. 10, 2025) (order). For crypto tax litigants, that may be as important as the substantive tax issue: proving a blockchain case often requires detailed transaction evidence, but public filings should be managed carefully to avoid unnecessarily exposing a taxpayer's wallet history.

What *Paschall* Does—and Does Not—Decide

Paschall is the only decision on the merits of the taxation of staking rewards. It should be read carefully to identify the factors that led the Court to rule against the taxpayer, especially if you are representing a client who is involved in staking.

It decides that, on the stipulated eToro facts, Cardano staking rewards credited to the taxpayer's account were taxable upon receipt. It also rejects the argument that a wallet-transfer restriction prevents income recognition when the taxpayer retains the ability to sell for cash. It rejects the *Macomber* analogy where staking rewards increase the taxpayer's proportionate and economic interest. And it rejects the self-created-property analogy where the taxpayer did not operate the staking pool, and the platform executed the staking process.

It does not decide every proof-of-stake case. It does not decide whether a direct validator on a materially different protocol can ever make a stronger self-created-property argument. It does not decide the proper treatment of transaction fees, slashing, lockups, liquid staking tokens, restaking, validator business expenses, or staking through non-U.S. platforms. It also does not decide how to source staking income, whether staking rises to a trade or business in a particular case, or whether particular rewards could be subject to I.R.C. § 83, partnership tax rules, or other specialized regimes.

The Court's decision is nevertheless important because it bypassed Rev. Rul. 2023-14 and held for the IRS under general tax principles. That makes the decision harder to dismiss as the fight therefore shifts from the force of the revenue ruling to whether the Court correctly applied general income-tax doctrine to the eToro staking facts and whether they apply to other forms of staking. A taxpayer can still argue that revenue rulings do not bind courts. See *Webber v. Commissioner*, 144 T.C. 324, 352–53 (2015) (applying *Skidmore* principles to revenue rulings). But after *Paschall*, the IRS can point to a Tax Court opinion applying I.R.C. § 61 directly in staking cases.

Practical Implications for Taxpayers Who Have Taken the Non-Inclusion Position

For crypto clients who have already excluded staking rewards from income, the first task is factual triage. Advisors should identify the years involved, the tokens involved, the platforms or wallets used, whether the taxpayer was a direct validator, whether the taxpayer delegated to a validator, whether a custodial platform administered staking, whether rewards were

locked, whether rewards were transferable or sellable, and whether any Forms 1099 were issued.

The second task is to determine the exact return position. Some taxpayers reported no income until sale. Some reported income only when rewards were unlocked. Some reported net amounts after platform fees. Some reported rewards inconsistently across exchanges. Some filed amended returns or refund claims relying on the Jarrett theory. Each posture presents a different audit and penalty profile.

The third task is information reporting reconciliation. If a platform issued a Form 1099-MISC or other information return, the IRS may identify the issue through matching. *Paschall* itself began with a Form 1099-MISC and later a CP2000 notice. Taxpayers who did not receive the form because it went to an old address may still have an IRS matching problem.

The fourth task is penalty analysis. A taxpayer who took the non-inclusion position should evaluate substantial authority, reasonable basis, reasonable cause, reliance on professional advice, disclosure, and consistency with available guidance at the time the return was filed. The answer may differ before and after Rev. Rul. 2023-14, and it may differ again after *Paschall*. A taxpayer with direct validator facts, careful disclosure, and competent advice may be in a different position from a taxpayer who received a platform 1099 and simply omitted the amount.

The fifth task is deciding what to do for the open years. There is no one-size-fits-all answer. Filing an amended return may reduce future exposure but could also concede a position the taxpayer may still wish to preserve. Not amending may preserve a legal argument, but it increases the importance of documentation, privilege-sensitive analysis, and penalty defenses. Clients with pending refund claims, CP2000 notices, examinations, or Tax Court petitions should treat *Paschall* as an important new authority that must be addressed directly.

Dealing with staking fact patterns post-*Paschall*, CPAs and tax lawyers should distinguish sharply between custodial staking, delegated staking, and direct validation. For custodial staking, *Paschall* is materially adverse. For direct validation, the issue remains more open.

Paschall does not end the staking debate, but it changes the conversation.

Pending legislation may eventually change this analysis, but it has not changed current law. The most relevant proposal is the Digital Asset PARITY Act, introduced by Rep. Max Miller and Rep Steven Horsford in May 2026 after earlier discussion drafts. The proposal would create

a broader digital-asset tax framework and would allow an elective five-year deferral regime for mining and staking rewards, with ordinary income recognition at a later date rather than immediate inclusion upon receipt.

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