

Title: Tezos Stakers Sue IRS in Federal Court Over Staking Tax Rewards

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Meta Description: Josh and Jessica Jarrett have filed a lawsuit against the IRS, challenging the tax treatment of Tezos. Read the following crypto news to know more.

Category: Market news

Tags: #Lawsuit #Staking #Taxation

- **Jarretts argue staking rewards should be taxed only when sold, not upon creation.**
- **This is the Jarretts' second legal attempt to clarify crypto tax rules.**

On October 10, 2024, Josh and Jessica Jarrett, Tezos network stakers, again [filed](#) a lawsuit against the IRS, challenging its taxation of block rewards from staking on the Tezos network. This case, now in federal court in Tennessee, asserts that tokens generated through staking should be classified as property, subject to taxation only upon sale, not when created. The Jarretts argue that this reflects similar treatment to farmers' crops or manufacturers' products, which do not incur tax until sold.

The IRS [claims](#) that block rewards are taxable as "income" when they are created, which the Jarretts contest as an unjust interpretation of tax law. According to them, block rewards are new assets that validators obtain when they contribute to blockchain transactions, thus constituting new property. This perspective aligns with the long-standing principle that new property is not automatically considered income. The IRS's position, the Jarretts contend, leads to over-taxation and compliance difficulties for cryptocurrency users.

Seeking Clarity on Cryptocurrency Tax Obligations

This lawsuit marks the Jarretts' second attempt to clarify their tax obligations regarding block rewards. Their initial case, filed in 2021, was dismissed when the IRS refunded the [taxes](#) paid without providing clear guidance on the issue. Subsequently, the IRS issued a directive stating that all staking rewards would be treated as taxable income immediately upon receipt.

This contradiction has fueled the current lawsuit, emphasizing the need for legal clarity on the taxation of cryptocurrencies. The implications of this case extend beyond the Jarretts. Millions of crypto users could face similar tax burdens if the IRS's interpretation remains unchallenged. Critics argue that the IRS's approach could deter individuals from participating in proof-of-stake networks, where staking is integral to network operations.

This concern echoes broader discussions about cryptocurrency regulation and taxation, as lawmakers consider introducing bills that clarify tax obligations related to digital assets. As this case unfolds, it may pave the way for necessary [regulatory](#) changes in the burgeoning field of digital currencies. Tax policy must evolve to accommodate the unique characteristics of cryptocurrency, ensuring it fosters innovation rather than stifling it.

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