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Two Tax Developments Worth Knowing: Crypto Staking Rewards and a New Credit for Beauty Businesses

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Start Here: Two recent federal tax developments could affect very different groups of taxpayers. A June 2026 U.S. Tax Court decision clarifies when cryptocurrency staking rewards become taxable for a cash-method taxpayer who gains control over the tokens. A separate change expands the FICA tip credit to eligible salon, spa, barbershop, and other beauty industry employers for tax years beginning in 2025. Below, we explain what the staking decision means for taxpayers receiving crypto rewards and how eligible beauty businesses may be able to claim a federal income tax credit for FICA taxes paid on certain employee tips.

Tax developments don't always arrive neatly packaged around a single industry or type of taxpayer. Two recent changes speak exactly to that point. A new U.S. Tax Court decision addresses when cryptocurrency *staking rewards* become taxable, while an expansion of an existing tax credit could reduce income taxes for eligible salon, spa, barbershop, and other beauty industry employers.

Here's what affected taxpayers need to know, starting with cryptocurrency staking rewards.

Receiving Crypto Staking Rewards? The Tax Timing Just Got Clearer

Some cryptocurrency owners can commit their tokens to help support the process a blockchain uses to validate transactions. In return for participating, they may receive additional cryptocurrency tokens as rewards. This process is known as "staking."

If you receive those staking rewards, an important tax question follows: When do the new tokens become taxable? Is it when they arrive in your account, or when you eventually sell them for cash?

A June 2026 U.S. Tax Court decision provides an answer under the circumstances presented in the case. In *Paschall v. Commissioner* (PDF file), the Tax Court held that a cash-method taxpayer had to include cryptocurrency staking rewards in gross income when the taxpayer received the rewards and gained "dominion and control" over them.

For taxpayers who participate in cryptocurrency staking, that distinction has a practical

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consequence. Receiving cryptocurrency can create taxable income, even when you haven't sold the tokens for dollars.

What Happened in the Paschall Case?

In *Paschall v. Commissioner*, Alvie and Patricia Paschall held a cryptocurrency named Cardano through an account that Mr. Paschall controlled with an electronic trading platform named eToro. The platform automatically enrolled its customers who held Cardano in its staking service, although they could opt out. The Paschalls stayed enrolled throughout 2021.

Each month, eToro added new Cardano tokens to Mr. Paschall's account as staking rewards. Once those tokens reached the account, the Paschalls could keep them, transfer them elsewhere, or sell them for cash.

The IRS said the Paschalls should have reported $33,354 in staking rewards as income for 2021. They disagreed, leaving the Tax Court to decide when the rewards became taxable: when the tokens were received or when they were eventually sold.

Why "Dominion and Control" Matters

For cash-method taxpayers, income is typically reported in the earliest year in which it is actually or constructively received. With cryptocurrency, the ability to control the asset plays an important role in determining when that occurs.

The Tax Court in *Paschall v. Commissioner* found that the Paschalls had dominion and control over the Cardano staking rewards when they were received (*i.e., they could access the tokens and sell them for cash without restriction*). The rewards also increased both the Paschalls proportionate interest in the cryptocurrency and the value of that interest.

The Paschalls argued that tokens created through staking amounted to self-created property and shouldn't become taxable until sold. The Tax Court disagreed and held that the staking rewards constituted taxable income upon receipt.

That conclusion also follows the position the IRS took in Revenue Ruling 2023-14 (PDF file). Under that guidance, the fair market value of staking rewards becomes gross income in the year a taxpayer gains dominion and control over them. The amount included in income reflects the rewards' fair market value at that time.

For someone receiving staking rewards, this creates a practical recordkeeping issue. Waiting until tokens are sold to reconstruct what happened may leave you searching through months of transaction history and cryptocurrency prices. Records should capture when rewards were received and their fair market value at that time.

As you can see, cryptocurrency staking can create tax consequences before you've

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converted your rewards to cash, which makes accurate records and timely tax planning especially important. If you receive staking rewards, consider working with a CPA or tax planning professional who understands cryptocurrency transactions and can help you determine when income needs to be reported and how to document the fair market value of the tokens you receive.

Own a Salon, Spa, or Barbershop? A Tax Credit May Now Be Available

For decades, restaurants and other qualifying food and beverage establishments could claim a federal income tax credit for the employer's share of Social Security and Medicare taxes paid on certain employee tips. Salon and spa owners didn't receive the same treatment, even though tipping plays a substantial role in many beauty and personal-care businesses.

That changed for tax years beginning Jan. 1, 2025. The FICA tip credit under Internal Revenue Code (IRC) Section 45B now extends to eligible businesses providing services such as barbering and hair care, nail care (including manicures and pedicures), esthetics, and body and spa treatments.

For owners of qualifying salons, spas, barbershops, and similar businesses, the expansion can turn a portion of the payroll taxes you've already pay into a federal income tax credit.

How the FICA Tip Credit Works

Employers pay Social Security and Medicare taxes on wages employees earn, including tips employees receive and report. The employer FICA rate totals 7.65 percent on wages up to the Social Security wage base, consisting of 6.2 percent for Social Security and 1.45 percent for Medicare. Above the Social Security wage base, the employer Medicare tax continues to apply.

The FICA tip credit allows an eligible employer to claim a general business credit based on their share of FICA taxes paid on qualifying employee tips. For beauty and spa businesses, the calculation uses the current federal minimum wage of $7.25 per hour.

By The Numbers

Consider a salon employee who works 100 hours during a month at $10 per hour. The employee earns $1,000 in regular wages and reports another $800 in tips.

At $7.25 per hour, the minimum wage amount for those 100 hours comes to $725. Because the employee's $1,000 in regular wages already exceeds that amount, all $800 in reported tips can qualify as creditable tips for purposes of this example.

Applying the 7.65 percent FICA rate to $800 produces a credit of $61.20 for the month. Over 12 months, that would amount to $734.40 for this one employee, assuming the same wages and qualifying tips each month.

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For a salon or spa with several tipped employees, those amounts can add up over the course of a year.

Voluntary Tips and Service Charges Need to Be Kept Separate

The FICA tip credit doesn't apply to every amount a customer pays above the stated price of a service. Voluntary tips, for example, qualify when the customer decides whether to leave a tip, determines the amount, and then decides who receives it. Mandatory service charges and automatic gratuities receive different tax treatment. They're considered wages rather than tips and don't qualify for the FICA tip credit.

The distinction between mandatory and voluntary tips makes payroll and tip records important. An employer claiming the credit needs records showing employee-reported tips and the FICA taxes paid on those amounts. The credit is claimed on IRS Form 8846, Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips, and becomes part of the general business credit.

Because the credit is nonrefundable, you as the business owner may not always be able to use the entire amount in the year it arises. Subject to the applicable rules, unused amounts can generally be carried back one year or forward for as many as 20 years.

Don't Overlook 2026 Tip Reporting Changes

Beauty industry employers also have another tip-related change to watch. Separate from the employer FICA tip credit, IRC Section 224 provides an employee-level deduction of up to $25,000 in qualified tips for 2025 through 2028. Employers have reporting responsibilities connected with that deduction.

For 2026 reporting, you need to pay attention to the applicable Form W-2 requirements for qualified tips, including the required tip and occupation information. The penalty relief provided for the 2025 transition period doesn't extend to 2026 reporting.

For salon and spa owners, that makes this a good time to review how payroll systems capture tips and distinguish voluntary gratuities from mandatory charges.

What These Developments Mean for Taxpayers and Business Owners

If you receive cryptocurrency staking rewards, don't assume that tax liabilities begin only when you eventually sell the tokens. The *Paschall* decision makes the timing of receipt and your ability to control the rewards important. Keeping simultaneous records of the rewards and their fair market value can make tax reporting considerably easier.

If you operate an eligible salon, spa, barbershop, or similar business with tipped employees, review your 2025 payroll and tip records to determine whether the expanded FICA tip credit applies. Your payroll procedures should also support the records and reporting you'll need for 2026.

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Our team here at SWC can help you determine how either development applies to your tax situation. If you're receiving cryptocurrency staking rewards or operating a newly eligible beauty industry business, contact us to discuss the reporting requirements or tax benefits that may apply. We can be reached by calling (858) 487-4580, emailing admin@swc.cpa, or using the Contact Form on our website.

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Keep in touch.
16875 W. Bernardo Drive, Suite. 290
San Diego, CA 92127
Phone: (858) 487-4580
FAX: (858) 487-8033
Web: www.SWC.cpa

Laura A. Stees, CPA
Co-founder | Partner | Business Strategist
Laura@SWC.cpa

Marni L. Walker, CPA
Co-founder | Managing Partner | Estate Strategist
Marni@SWC.cpa