PGPZ Statement on the Illinois Digital Asset Tax Act

Pretty Good Policy for Zcash (PGPZ) strongly opposes the Digital Asset Tax Act enacted as part of Illinois's fiscal year 2027 budget legislation. The Act establishes a discriminatory tax on ordinary digital asset activity, including the exchange, transfer, and storage of cryptocurrency, without imposing a comparable transaction tax on traditional financial assets.

Unlike a capital gains tax, the Act does not depend on whether a user earned a profit. Instead, it imposes a tax based on the value of the digital assets involved each time a covered activity occurs. A user may therefore be taxed for purchasing an asset, exchanging it, and later transferring it to a non-custodial wallet, even when those transactions generate no income and form part of a single course of activity. This structure risks compounding the tax burden while penalizing users merely for exercising control over their own property.

The Act is particularly harmful to Zcash users. Many users withdraw ZEC from a custodial platform to a non-custodial wallet before using Zcash's shielded transaction technology. Such transfers are not speculative trades or taxable consumption. They are an essential step for users seeking greater control over their assets and access to the privacy protections offered by the Zcash protocol. Illinois should not impose an additional financial penalty on residents for choosing self-custody or protecting the confidentiality of their lawful financial activity.

The Act also creates substantial privacy concerns. To determine whether a transaction is attributable to Illinois, custodians will need to collect, retain, and analyze users' home addresses, mailing addresses, internet protocol addresses, and other information indicating their location. A law ostensibly intended to tax digital assets may therefore encourage expanded surveillance of cryptocurrency users and the creation of additional databases containing sensitive personal and financial information.

These requirements are especially troubling because financial privacy is an important component of personal safety, commercial confidentiality, and individual autonomy. Illinois should be encouraging privacy-preserving technology and responsible self-custody, not adopting rules that make lawful users easier to monitor simply because they choose to transact with digital assets.

The Act is also unlikely to produce the revenue its proponents anticipate. Digital-asset businesses can serve customers across state and national borders, and many may reasonably conclude that the cost, uncertainty, and legal risk of complying with an Illinois-specific transaction tax outweigh the benefits of continuing to serve the state. Platforms may restrict services, block Illinois residents, or relocate activity elsewhere. The result could result in the opposite of its intended effect through less economic activity, fewer investment opportunities, reduced consumer choice, and ultimately less tax revenue for Illinois.

Sound public policy should treat equivalent economic activity consistently, protect lawful financial privacy, and provide clear rules developed through a transparent legislative process. The Digital Asset Tax Act fails each of those tests.

PGPZ urges Illinois lawmakers to repeal the Digital Asset Tax Act before it takes effect. At a minimum, any reconsideration of the policy should expressly protect transfers to self-custodied wallets, privacy-preserving transactions, and other activities that do not represent the sale of goods, the realization of income, or payment for a taxable service. Illinois residents should not be taxed merely for holding, moving, or protecting their own digital assets.