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The Impact of Tax Scrutiny on Cryptocurrency Investor Behavior: A Qualitative Synthesis of Tax-Loss Harvesting and Wash Trading Strategies

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Abstract: This qualitative literature review investigates how tax scrutiny influences investor behavior in the cryptocurrency market, with a focus on tax-loss harvesting and wash trading strategies. As governments enhance transparency and enforcement, crypto investors increasingly adapt their behaviors to optimize after-tax outcomes. The review synthesizes recent academic findings that highlight the growing use of legal tax-loss harvesting and the controversial persistence of wash trading, particularly in unregulated exchanges. Evidence suggests that regulatory uncertainty and inconsistent tax treatment across jurisdictions drive strategic investor responses and, in some cases, unintended compliance gaps. This study underscores the need for updated tax frameworks capable of addressing the unique characteristics of digital assets. The analysis contributes to the broader discourse on how taxation shapes market behavior in emerging financial ecosystems.

Keywords: Cryptocurrency Taxation; Tax-Loss Harvesting; Wash Trading; Investor Behavior, Tax Scrutiny

1. Introduction

The rise of cryptocurrency markets has posed significant regulatory and taxation challenges for governments worldwide. In the absence of centralized intermediaries and uniform accounting standards, regulators have struggled to monitor and enforce compliance among crypto investors, especially in the realm of tax reporting (Anderson et al., 2022; Luo & Yu, 2022). As the volume of crypto transactions surged over the past decade, so too did concerns about tax evasion, underreporting of capital gains, and strategic use of unregulated or lightly regulated exchanges (Cong et al., 2022). In response, the U.S. and several other jurisdictions have intensified tax scrutiny of crypto-related activities, sparking observable shifts in investor behavior—particularly around tax-loss harvesting and wash trading (Cong, Landsman, Maydew, & Rabetti, 2023).

Cryptocurrency taxation, while conceptually similar to traditional capital gains taxation, presents unique enforcement challenges. Unlike securities traded on centralized platforms, crypto assets often move across multiple, opaque, and sometimes decentralized venues, creating regulatory blind spots. Moreover, the pseudonymous nature of blockchain transactions makes it difficult for authorities to reliably track taxable events (OECD, 2022). In the U.S., the Internal Revenue Service (IRS) has begun addressing these issues through more aggressive information requests, expanded disclosure obligations, and broader definitions of taxable crypto events (Jemiolo & Redpath, 2022).

Against this backdrop, one behavioral response gaining traction among crypto investors is tax-loss harvesting—the strategic sale of depreciated assets to offset capital gains tax liabilities (Grinblatt & Keloharju, 2004; Poterba & Weisbenner, 2001). While common in traditional markets, its use in the crypto space is notable because cryptocurrencies are currently exempt from the U.S. wash sale rule under IRS guidelines (Avi-Yonah, 2022). This

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loophole allows investors to sell and immediately repurchase crypto assets without violating anti-abuse provisions, thereby enabling aggressive tax planning (Willens, 2022; Axelrod, 2022).

Cong et al. (2023) provide empirical evidence showing that increases in tax scrutiny—such as policy changes, IRS enforcement signals, or legislative proposals—lead to a significant uptick in tax-loss harvesting among U.S.-based crypto investors. Interestingly, this behavioral shift appears to substitute for non-compliance. Rather than hiding transactions or underreporting gains, investors are increasingly resorting to legal tax-minimization techniques. This reflects a broader pattern observed in the taxation literature, where heightened enforcement pressure tends to encourage legal forms of avoidance over outright evasion (Hanlon & Heitzman, 2010; Sandmo, 2005). Tax incentives for income tax, income levels, and tax penalties simultaneously have a significant influence on taxpayer compliance (Rizal, M. & Gulo, F., 2022).

However, tax-loss harvesting is not the only behavioral response observed. The same periods of heightened scrutiny also show increases in wash trading, particularly on U.S.-regulated exchanges (Aloosh & Li, 2022; Cong, Li, Tang, & Yang, 2023). Wash trading refers to the act of simultaneously buying and selling the same asset to create the illusion of market activity, often for the purposes of price manipulation or tax benefits. Though wash trading is illegal in securities markets, its legality in crypto remains ambiguous due to the lack of explicit statutory guidance and the fragmented nature of crypto trading platforms (Avi-Yonah, 2022; Rabetti, 2022).

This dual behavioral response—greater tax-loss harvesting alongside a rise in wash trading—raises several important questions. First, to what extent do tax regulations (or the lack thereof) create incentives for such strategies? Second, do changes in enforcement intensity alter investor preferences for particular types of exchanges, jurisdictions, or crypto products? Third, how do these behaviors impact the broader integrity and transparency of the crypto market?

Qualitative analyses provide valuable insight into these questions, especially where the empirical literature is still developing. For instance, Blouin, Hail, and Yetman (2009) note that differential capital gains treatment can distort arbitrage incentives and trading spreads, a finding that may hold in decentralized contexts. Likewise, studies on offshore tax behavior (Hanlon et al., 2015; De Simone, Lester, & Markle, 2020) suggest that increased disclosure requirements, such as those under FATCA, shift investor behavior toward more compliant or sophisticated strategies, including the use of anonymous decentralized platforms (Capponi & Jia, 2022).

Moreover, the literature on tax authority monitoring provides a theoretical backdrop for interpreting crypto investor reactions to scrutiny. Hanlon, Maydew, and Thornock (2015) find that U.S. tax scrutiny deters offshore evasion but encourages legal tax planning. Similarly, Balakrishnan, Blouin, and Guay (2019) argue that tax aggressiveness correlates with corporate transparency levels—potentially analogous to how sophisticated crypto investors may manage reputational risk by choosing compliant tax strategies. These findings collectively underscore the dynamic nature of investor responses to regulatory shifts in tax enforcement.

The crypto environment also introduces novel variables. The emergence of new digital assets like Non-Fungible Tokens (NFTs) and Decentralized Finance (DeFi) protocols has created additional gray areas in taxation, making enforcement even more complex (Anderson et al., 2022; Tang & Zhang, 2022). For example, many DeFi transactions involve indirect gains or staking rewards that may not fit neatly into traditional tax categories (Cong, Tang, Wang, & Zhao, 2022). Similarly, the liquidity and transferability of NFTs make valuation and capital gain calculation particularly challenging (Sheppard, 2022).

In this context, regulatory uncertainty can paradoxically increase both compliance and non-compliance, depending on investor sophistication and risk tolerance. As highlighted by Slemrod (2007), taxpayers are strategic actors who balance the costs and benefits of evasion, avoidance, and compliance. When enforcement becomes more credible or penalties more severe, the calculus shifts—often toward more sophisticated planning techniques such as tax-loss harvesting or cross-exchange arbitrage (Hoopes et al., 2022).

This review aims to synthesize the growing literature on the behavioral effects of tax scrutiny on crypto investors, focusing on two primary responses: tax-loss harvesting and wash trading. By drawing from empirical, conceptual, and regulatory sources, this paper seeks to map how tax policy changes and enforcement mechanisms shape investor decisions, trading patterns, and platform preferences. We pay special attention to the evolving legal treatment of wash sales and the role of decentralized exchanges in facilitating or deterring strategic

behavior. Ultimately, this review underscores the need for more coordinated regulatory responses that balance innovation with tax integrity.

2. Literature Review

The taxation of cryptocurrency remains one of the most complex and evolving areas of modern financial regulation. As regulators grapple with defining, classifying, and enforcing crypto taxation, investor behavior adapts in ways that have both intended and unintended consequences. Recent literature converges around two prominent behavioral responses to increased tax scrutiny in the crypto space: tax-loss harvesting and wash trading.

Cong, Landsman, Maydew, and Rabetti (2023) provide foundational evidence showing that heightened tax scrutiny encourages cryptocurrency investors to engage more heavily in tax-loss harvesting as a legal alternative to tax non-compliance. Their study demonstrates that, unlike in traditional equity markets, cryptocurrency investors benefit from the absence of the wash sale rule in U.S. tax law, thereby enabling them to immediately repurchase assets sold at a loss without penalty. The variables of profitability, leverage and deferred tax expense have a significant effect on tax avoidance (Amelia, Y., & Waruwu, K. L., 2022).

This regulatory gap has led to growing scholarly attention on tax-loss harvesting within the crypto market. Avi-Yonah (2022) warns of the distortionary effects such loopholes may produce, especially as investors cyclically sell and repurchase digital assets to generate artificial tax losses. Axelrod (2022) and Willens (2022) also raise concerns about the risk of tax-motivated trading behavior manipulating market dynamics and reducing transparency.

The theoretical framework for understanding tax-loss harvesting in crypto is anchored in earlier studies on capital gains tax behavior. Poterba and Weisbenner (2001), and Grinblatt and Keloharju (2004), show that traditional investors engage in tax-loss trading to offset capital gains, a behavior now mirrored in decentralized markets. Dai, Maydew, Shackelford, and Zhang (2008) further demonstrate the lock-in effect of capital gains taxes, which crypto investors may circumvent via tax-loss harvesting. Tax avoidance can encourage the use of debt as a more dominant source of financing (Kusnanto, E., et al, 2024).

Beyond harvesting, a significant line of inquiry centers on wash trading—transactions that involve the simultaneous buying and selling of the same crypto asset to inflate volume or manipulate pricing. Aloosh and Li (2022) present direct evidence of widespread wash trading on cryptocurrency exchanges, especially during periods of increased tax enforcement. Their findings align with Cong, Li, Tang, and Yang (2023), who identify how the decentralized and fragmented nature of crypto exchanges facilitates such behavior.

Wash trading is not merely a compliance issue but also a market integrity concern. Amiram, Lyandres, and Rabetti (2022) uncover how crypto exchanges may actively manipulate order books to generate artificial activity, thus obfuscating tax authorities' efforts to detect wash sales. Similarly, Amiram, Bozanic, and Rouen (2015) explore how distributional anomalies in financial statements can serve as early indicators of manipulation—a methodology increasingly relevant for crypto tax enforcement.

On the regulatory side, the OECD (2022) acknowledges the need for a global crypto-asset reporting framework, highlighting discrepancies in national enforcement regimes. Kollmann, Qichao, and Fangbei (2021) provide a cross-country comparison of crypto income taxation, showing how varying tax treatments create arbitrage opportunities and influence investor domicile decisions.

Investor reactions to scrutiny are also shaped by perceptions of regulatory risk and enforcement credibility. Hanlon and Heitzman (2010) posit that stronger monitoring induces tax planning over evasion. This hypothesis is empirically supported in Hanlon, Maydew, and Thornock (2015), who find that U.S. investors tend to repatriate earnings or switch to compliant planning strategies under heightened scrutiny. Balakrishnan, Blouin, and Guay (2019) add that firms with more transparent reporting structures exhibit greater responsiveness to tax authority monitoring.

Meanwhile, De Simone, Lester, and Markle (2020) examine how increased disclosure regimes like FATCA alter offshore investment behavior. Their findings suggest that even broad, non-crypto-specific regulatory efforts can significantly shape tax-motivated asset flows—likely applicable to crypto investors navigating between centralized and decentralized platforms.

Accounting scholars have also emphasized the conceptual ambiguity in classifying crypto assets for taxation. Anderson, Fang, Moon, and Shipman (2022), and Luo and Yu (2022),

highlight the lack of consensus in how crypto should be reported—whether as property, currency, or intangible asset—affecting capital gain computation. Cao, Cong, and Yang (2019) argue that blockchain-based assets challenge traditional accounting standards and necessitate new frameworks for taxation and audit.

The gray zones in regulation are further compounded by the emergence of DeFi protocols and NFTs. Tang and Zhang (2022) argue that the decentralized architecture of DeFi makes taxation more difficult, particularly when transactions occur across anonymous wallets or on-chain lending platforms. Cong, Tang, Wang, and Zhao (2022) reinforce this concern, suggesting that tax enforcement lags behind innovation, allowing tax avoidance strategies to proliferate in Web3 ecosystems.

In terms of enforcement tools, Belnap, Hoopes, Maydew, and Turk (2022) show that tax audits generate measurable behavioral changes among taxpayers, increasing future compliance. Yost and Shu (2022) observe that enforcement deters managerial self-dealing, offering analogues for how regulatory clarity could discipline crypto investors' tax strategies.

Finally, broader literature in tax evasion theory provides additional context. Sandmo (2005) and Slemrod (2007) frame taxpayer behavior as a function of perceived detection probability, enforcement intensity, and available legal alternatives. Applied to crypto markets, these models predict a shift toward legal avoidance like tax-loss harvesting when scrutiny increases, consistent with empirical trends reported by Cong et al. (2023).

Together, these studies underscore the necessity of coordinated tax policy and comprehensive enforcement in managing crypto investor behavior. Without unified regulation, crypto markets risk becoming arenas for aggressive tax avoidance and opportunistic arbitrage, undermining both market integrity and public revenue objectives.

3. Proposed Method

This study adopts a qualitative literature review methodology to synthesize existing academic and practitioner research regarding the behavioral responses of cryptocurrency investors to tax scrutiny, with a particular focus on tax-loss harvesting and wash trading strategies. A qualitative synthesis allows for thematic interpretation and conceptual aggregation across studies rather than mere statistical summarization, as advocated by Tranfield, Denyer, and Smart (2003) in evidence-based management research.

To ensure methodological rigor, this review followed the structured approach recommended by Snyder (2019), which involves five steps: (1) defining the research questions; (2) selecting relevant literature; (3) evaluating the quality and credibility of sources; (4) analyzing and synthesizing findings; and (5) presenting an integrative narrative. The central research question guiding this review is: How does increasing tax scrutiny influence cryptocurrency investors' adoption of tax-loss harvesting and wash trading strategies?

A systematic search strategy was employed using databases. Keywords such as “crypto tax-loss harvesting,” “wash trading,” “tax enforcement,” “cryptocurrency tax behavior,” and “capital gains avoidance” were used to identify relevant peer-reviewed journal articles, working papers, and institutional reports published between 2000 and 2025. The inclusion criteria required that studies (a) directly address cryptocurrency-related taxation, (b) include empirical or conceptual analysis of investor behavior, and (c) be published in English. Key studies reviewed include Cong, Landsman, Maydew, and Rabetti (2023) on tax-loss harvesting with cryptocurrencies, and Cong et al. (2023) on the anatomy of crypto wash trading.

Quality assessment was based on relevance, methodological transparency, and theoretical contribution, aligned with the evaluation criteria suggested by Torraco (2005). Particular attention was paid to emerging empirical evidence, such as Aloosh and Li's (2022) direct documentation of Bitcoin wash trading using blockchain analytics and Avi-Yonah's (2022) legal critiques regarding wash sales in crypto markets.

Data extraction and thematic coding were performed manually using a two-phase process: first, identifying patterns of investor behavior in response to tax regulation and enforcement; second, categorizing those behaviors into themes of compliance, evasion, and strategic tax arbitrage. This interpretive process draws from the constant comparative method (Boeije, 2002), which supports grounded conceptual synthesis across heterogeneous studies.

The methodology acknowledges that the evolving nature of cryptocurrency taxation and global regulatory asymmetry (OECD, 2022; The Law Library of Congress, 2021) require contextual sensitivity. Therefore, this review does not aim for generalization across all jurisdictions, but instead seeks to identify prevailing behavioral tendencies under varying degrees of tax oversight.

By focusing on the interplay between regulatory enforcement and investor response, this qualitative literature review contributes to ongoing debates about the effectiveness of tax policy in shaping ethical financial behavior in decentralized markets.

4. Results

The qualitative synthesis of the literature reveals that tax scrutiny exerts a significant behavioral influence on cryptocurrency investors, particularly in their adoption of tax-loss harvesting (TLH) and wash trading strategies. Across jurisdictions and investor profiles, three major themes emerge: (1) tax-driven portfolio optimization, (2) regulatory arbitrage and evasion behavior, and (3) the rise of decentralized compliance circumvention.

Tax-Driven Portfolio Optimization. Multiple studies demonstrate that the absence of traditional wash sale rules in the cryptocurrency space incentivizes investors to engage in highly frequent TLH strategies. Cong et al. (2023) provide empirical evidence showing that crypto investors exploit the ability to sell and immediately repurchase the same digital assets to harvest tax losses without violating any regulatory constraints—something that would not be permissible under U.S. equity tax codes. This behavior is especially pronounced near the end of fiscal years when investors engage in "tax harvesting sprints" to reduce capital gains taxes (Cong, Landsman, Maydew, & Rabetti, 2023).

TLH in the crypto market is not merely reactive but strategic. Investors intentionally generate losses by selling depreciated tokens and rebalancing their portfolios in real-time using algorithmic tools designed for tax efficiency. Platforms such as TokenTax and CoinLedger have capitalized on this behavior by offering automated TLH calculators, further institutionalizing the practice.

Regulatory Arbitrage and Evasion. The anonymity and decentralized architecture of cryptocurrency trading have facilitated a gray area where wash trading is rampant. Aloosh and Li (2022) provide blockchain-based evidence that wash trading constitutes over 70% of reported volume on unregulated exchanges, suggesting that tax evasion is both systematic and scale-dependent. Wash trades are often disguised as legitimate market activity, allowing traders to inflate transaction volumes, create artificial liquidity, and claim tax deductions from self-imposed losses.

Despite regulatory efforts, such as the IRS's increased scrutiny on Form 8949 reporting for digital assets, enforcement is limited by information asymmetry and jurisdictional fragmentation (IRS, 2023). This has led to what Avi-Yonah (2022) terms "compliance optionality," where investors selectively comply with tax rules based on perceived enforcement probability rather than legal obligation.

Emergence of Decentralized Compliance Circumvention. A recent trend involves the use of decentralized exchanges (DEXs) and mixers to execute trades beyond the purview of tax authorities. The OECD (2022) and Law Library of Congress (2021) report growing concern over the inability of traditional tax regimes to monitor peer-to-peer and DeFi-based transactions. Investors using platforms like Uniswap or Tornado Cash can potentially engage in repetitive TLH or wash transactions without clear identity trails, thereby undermining regulatory visibility.

Moreover, the lack of harmonized global standards facilitates cross-border regulatory arbitrage, allowing investors in lightly regulated jurisdictions to take advantage of less stringent crypto tax laws. This behavior suggests that the effectiveness of tax scrutiny is contingent not only on domestic enforcement but also on international coordination.

Summary of Key Findings

Theme	Key Insight	Supporting Source
Tax-Loss Harvesting	High-frequency, same-day buybacks enabled by crypto exemption from wash sale rules	Cong et al., 2023
Wash Trading	Over 70% of volume on unregulated exchanges may be artificial	Aloosh & Li, 2022
Regulatory Arbitrage	Investors comply selectively, based on enforcement expectations	Avi-Yonah, 2022; IRS, 2023
DeFi Risks	DEXs and mixers hinder auditability of crypto tax activity	OECD, 2022; Law Library of Congress, 2021

5. Discussion

This literature review synthesizes the existing body of knowledge surrounding the behavioral responses of cryptocurrency investors to increasing tax scrutiny, particularly

through the lens of tax-loss harvesting (TLH) and wash trading strategies. The findings underscore the complex and often paradoxical nature of investor behavior in decentralized financial ecosystems, where legal ambiguity, enforcement asymmetry, and technological affordances create fertile ground for strategic tax-motivated actions.

The core finding—namely that crypto investors heavily exploit TLH due to the current absence of wash sale rules—is consistent with empirical research by Cong, Landsman, Maydew, and Rabetti (2023), who document widespread same-day repurchase of digital assets as part of deliberate tax planning. This is in sharp contrast with conventional equity markets, where wash sale prohibitions prevent such behavior. Compared with Barberis and Thaler's (2003) behavioral finance perspective, which emphasized psychological biases in tax-related decision-making, the crypto context suggests more calculated, utility-maximizing strategies enabled by real-time algorithmic trading platforms.

Furthermore, the role of tax optimization platforms such as TokenTax or CoinLedger (as reported in Cong et al., 2023) demonstrates how automation facilitates mass participation in TLH by even non-sophisticated investors, which aligns with findings from Frischmann and Selinger (2018), who argue that digital nudging can normalize complex financial behaviors. This expansion of TLH behavior illustrates a democratization of tax arbitrage, further blurring the line between legal tax planning and manipulative tax avoidance.

Wash trading behavior, as explored by Aloosh and Li (2022), reveals an even more troubling phenomenon: the institutionalization of tax fraud under the guise of liquidity provision. By documenting that over 70% of trades on unregulated exchanges are potentially wash trades, their blockchain analytics corroborate earlier suspicions raised by Gandal et al. (2018), who demonstrated artificial inflation of trading volume on Mt. Gox to manipulate market perceptions. However, whereas Gandal et al. emphasized price manipulation, Aloosh and Li highlight tax-related motives, showcasing how investor intentions are increasingly shaped by regulatory arbitrage.

This contrasts with traditional capital market studies such as Poterba and Weisbenner (2001), who analyzed TLH behavior primarily in mutual fund settings and found limited year-end harvesting without the intent of immediate repurchase. Crypto investors, in contrast, display an aggressive stance toward loss generation, reflecting a paradigm shift driven by the anonymity, volatility, and 24/7 nature of digital markets.

The concept of "compliance optionality" articulated by Avi-Yonah (2022) resonates with Kirchler, Hoelzl, and Wahl (2008), who proposed the "slippery slope" framework in which trust in authorities and power of enforcement jointly determine tax compliance. In the decentralized world of crypto, low trust in centralized institutions, coupled with limited enforcement capacity, fuels evasion strategies. This dynamic is further substantiated by OECD (2022) and the IRS (2023), both of which recognize the jurisdictional limitations of current reporting frameworks and stress the urgent need for cross-border data sharing.

Comparing the findings with Yermack (2017), who argued that cryptocurrencies pose systemic risks to traditional tax regimes due to their pseudonymity and cross-border portability, the present synthesis suggests that tax-induced behavioral distortions are not merely theoretical but actively shaping market structure. Crypto investors exploit these structural weaknesses through both legal and illegal means, creating an urgent need for redefinition of taxable events in decentralized finance.

Recent DeFi innovations such as mixers and decentralized exchanges (DEXs), as discussed by the Law Library of Congress (2021), complicate compliance further. Investors are now capable of conducting multiple TLH or wash trades without a traceable identity, effectively decentralizing tax avoidance. This represents a departure from earlier understandings of investor behavior in partially observable environments, such as that described in Hanlon and Heitzman's (2010) tax avoidance framework, which assumed the presence of centralized intermediaries. In contrast, decentralized tools eliminate intermediaries entirely, complicating detection and enforcement.

The synthesis also engages with the policy implications of these behavioral trends. For example, the proposed U.S. Build Back Better Act (2021) aimed to extend the wash sale rule to cryptocurrencies, which would realign investor behavior more closely with that observed in equity markets. Yet, similar initiatives have failed to materialize globally, suggesting a gap between legislative intent and regulatory execution. This mirrors arguments by Braithwaite (2003) that effective deterrence in tax policy must be accompanied by moral legitimacy and clear signals of enforcement.

Additionally, this review aligns with insights from Shackelford and Shevlin (2001), who observed that investor response to tax changes is both immediate and adaptive, depending

on the visibility and credibility of enforcement. In the context of cryptocurrency, where enforcement remains inconsistent and often symbolic, strategic non-compliance becomes a rational response rather than a deviant behavior.

Eight key studies offer points of comparison for understanding the evolving behavior of crypto investors: Poterba & Weisbenner (2001) – Demonstrated moderate TLH in traditional assets without frequent repurchases, contrasting sharply with crypto. Hanlon & Heitzman (2010) – Focused on tax avoidance under centralized oversight, less applicable in DeFi contexts. Gandal et al. (2018) – Highlighted wash trading for market manipulation, whereas recent evidence ties wash trades to tax motives. Yermack (2017) – Predicted systemic tax threats from crypto anonymity, now substantiated by decentralized wash trading.

Kirchler et al. (2008) – Developed the slippery slope model, applicable to crypto's low trust and low enforcement setting. Frischmann & Selinger (2018) – Argued for behavioral shaping via technology, reflected in TLH automation tools. Shackelford & Shevlin (2001) – Emphasized investor adaptation to tax changes, consistent with crypto investor behavior. Braithwaite (2003) – Asserted legitimacy and consistent enforcement as drivers of compliance, both lacking in crypto tax regimes.

The literature suggests that cryptocurrency investors exhibit highly strategic, tax-motivated behavior in response to weak enforcement and regulatory gaps. This behavior spans both legal tax optimization via TLH and illegal or gray-area activities such as wash trading. The decentralized, pseudonymous nature of digital finance enables new forms of regulatory arbitrage that challenge conventional tax compliance frameworks. Therefore, any future regulatory response must combine technical capacity, international coordination, and behavioral insights to effectively deter both opportunistic and institutionalized tax avoidance strategies in the cryptocurrency ecosystem

6. Conclusions

Sections must summarize briefly and concisely the contents of the document or essay. This section may contain (1) A summary of the main results, findings, and evidence from your research or analysis. (2) Synthesis of findings, namely the relationship between findings and research objectives, and show how these findings support arguments or hypotheses. (3) The author may also be able to discuss the implications of research findings for research benefits. What is the contribution or impact on the knowledge or topic discussed? (4) Limitations and suggestions for further research.

This qualitative literature review has examined how heightened tax scrutiny influences cryptocurrency investor behavior, particularly through the lens of tax-loss harvesting and wash trading strategies. Evidence from recent academic and professional literature suggests that investors are increasingly responsive to regulatory signals, adapting their trading behaviors to optimize after-tax returns (Cong et al., 2023; Belnap et al., 2022). Tax-loss harvesting has emerged as a popular legal strategy, especially given the high volatility of crypto assets, which allows investors to realize losses without necessarily altering their long-term portfolio positions (Grinblatt & Keloharju, 2004).

In contrast, wash trading—especially in unregulated or loosely regulated exchanges—remains a gray area exploited by some investors, despite being prohibited in traditional markets (Aloosh & Li, 2022; Cong et al., 2023). However, tax authorities have begun to pay more attention to these manipulative practices, as reflected in growing policy discussions and enforcement threats (Avi-Yonah & Salami, 2022). The evidence reviewed suggests a clear behavioral response among crypto investors to changes in tax reporting requirements and enforcement intensity. While some comply and restructure strategies accordingly, others attempt to exploit regulatory gaps.

The findings also indicate that current tax regimes may struggle to keep pace with the innovations and complexities inherent in crypto markets (Anderson et al., 2022). This regulatory lag creates both opportunities for tax arbitrage and risks for systemic evasion. A more integrated and technologically informed regulatory framework will be essential to align investor incentives with tax compliance and market integrity goals.

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